FINANCIAL MARKET – ITS TYPES AND ROLES IN INDUSTRY

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ABSTRACT

In Economics, a Financial Market is a mechanism that allows people to buy and sell (trade) financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods), and other fungible items of value at low transaction costs and at prices that reflect the efficient-market hypothesis.

Both general markets (where many commodities are traded) and specialized markets (where only one commodity is traded) exist. Markets work by placing many interested buyers and sellers in one "place", thus making it easier for them to find each other. An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market economy in contrast either to a command economy or to a non-market economy such as a gift economy.

Keywords: Financial Market, Currency Market, Stock Market, Bond Market, Insurance Market

INTRODUCTION

Broad term describing any market place where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial Markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. In economics, typically, the term market means the aggregate of possible buyers and sellers of a certain good or service and the transactions between them. The term "market" is sometimes used for what are more strictly exchanges, organizations that facilitate the trade in financial securities, e.g., a stock exchange or exchange in Finance, Financial Markets facilitate:

- The raising of capital (in the Capital Markets)
- The transfer of risk (in the Derivatives Markets)
- The transfer of liquidity (in the Money Markets)
- International trade (in the Currency Markets)

And are used to match those who want capital to those who have it

OBJECTIVES

1. Understand the historical relationship between internally generated corporate sources of funds and externally generated sources of funds.
2. Understand the financing mix that tends to be used by firms raising long-term financial capital.
3. Explain why financial markets exist in a developed economy.
4. Explain the financing process by which savings are supplied and raised by major sectors in the economy.
5. Describe the key components of the U.S. financial market system.
6. Understand the role of the investment banking business in the context of raising corporate capital.
7. Distinguish between privately placed securities and publicly offered securities.
8. Be acquainted with the concepts of securities flotation costs and securities markets regulations.

Scope of Financial Market

The Financial Market in India at present is more advanced than many other sectors as it became organized as early as the 19th century with the securities exchanges in Mumbai, Ahmedabad and Kolkata. In the early 1960s, the number of securities exchanges in India became eight - including Mumbai, Ahmedabad and Kolkata. Apart from these three exchanges, there was the Madras, Kanpur, Delhi, Bangalore and Pune exchanges as well. Today there are 23 regional securities exchanges in India.

The Indian Stock Markets till date have remained stagnant due to the rigid economic controls. It was only in 1991, after the liberalization process that the India securities market witnessed a flurry of IPOs serially. The market saw many new companies spanning across different industry segments and business began to flourish.

The launch of the NSE (National Stock Exchange) and the OTCEI (Over the Counter Exchange of India) in the mid-1990s helped in regulating a smooth and transparent form of securities trading.

The regulatory body for the Indian capital markets was the SEBI (Securities and Exchange Board of India). The capital markets in India experienced turbulence after which the SEBI came into prominence. The market loopholes had to be bridged by taking drastic measures.

India Financial Market helps in promoting the savings of the economy - helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient and integrated to face all shocks. In the India financial market there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other determinant factor of the prices of the financial products is the market forces of demand and supply. The various other types of Indian markets help in the functioning of the wide India financial sector.

Features of Financial Market

- India Financial Indices - BSE 30 Index, various sector indexes, stock quotes, Sensex charts, bond prices, foreign exchange, Rupee and Dollar Chart
- Indian Financial market news
- Stock News - Bombay Stock Exchange, BSE Sensex 30 index, S&P CNX-Nifty, company information, issues on market capitalization, corporate earnings statements
- Fixed Income - Corporate Bond Prices, Corporate Debt details, Debt trading activities, Interest Rates, Money Market, Government Securities, Public Sector Debt, External Debt Service
- Foreign Investment - Foreign Debt Database composed by BIS, IMF, OECD, and World Bank, Investments in India and Abroad
- Global Equity Indexes - Dow Jones Global indexes, Morgan Stanley Equity Indexes
- Currency Indexes - FX and Gold Chart Plotter, J. P. Morgan Currency Indexes
- National and Global Market Relations
- Mutual Funds
- Insurance
- Loans
- Forex and Bullion
- If an investor has a clear understanding of the India financial market, then formulating investing strategies and tips would be easier

Types of Financial Markets

The Financial Markets can be divided into different subtypes:

- Capital Markets which consist of:
- Stock Markets, which provide financing through the issuance of shares or common stock, and enable the subsequent trading thereof.
- Bond Markets, which provide financing through the issuance of bonds, and enable the subsequent trading thereof.
- Commodity Markets, which facilitate the trading of commodities.
- Money Markets, which provide short term debt financing and investment.
- Derivatives Markets, which provide instruments for the management of financial risk.
- Futures Markets, which provide standardized forward contracts for trading products at some future date; see also forward market.
- Insurance Markets, which facilitate the redistribution of various risks.

- Foreign Exchange Markets, which facilitate the trading of foreign exchange.
- The capital markets consist of primary markets and secondary markets. Newly formed (issued) securities are bought or sold in primary markets. Secondary markets allow investors to sell securities that they hold or buy existing securities. The transaction in primary market exists between investors and public while secondary market it's between investors.

Money Market

The money market has witnessed the emergence of a number of new instruments such as commercial paper (CP) and certificates of deposit (CDs) and derivative products including forward rate agreements (FRAs) and interest rate swaps (IRS). Repo operations, which were introduced in the early 1990s and later refined into a Liquidity Adjustment Facility (LAP), allow the RBI to modulate liquidity and transmit interest rate signals to the market on a daily basis.

Government Securities Market

The process of financial market development was buttressed by the evolution of an active government securities market after the government borrowing programmed was put through the auction process in 1992-93. The development of a market for government paper enabled the RBI to modulate the monetization of the fiscal deficit.

Capital Market

Although the stock markets have undergone a number of shocks and irregularities over the past decade, they have over time, developed sophisticated institutional mechanisms, by harnessing modern computer technology. Even though the market design on the stock markets has made major progress, there are continuing concerns about the speed and effectiveness with which fraudulent activities can be detected and punished. This should be the major focus of the development of the stock market.

Insurance Market

Reforms have created competition in the insurance sector and given the customers a wide choice not only in the matter of insurance companies, but also in terms of insurance products. However, impact of increased competition is yet to be felt on insurance penetration.

Foreign Exchange Market

The foreign exchange market deepened with the opening up of the economy and the institution of a market-based exchange rate regime in the early 1990s. Although there are occasional episodes of volatility in the foreign exchange market, these were swiftly controlled by appropriate policy measures.

Role of Financial Markets

Effective Mobilization of Savings

Stock exchanges provide organized market for individual as well as institutional investors. They regulate the trading transactions with proper rules and regulations in order to ensure investor's protection. This helps to consolidate the confidence of investors and small savers, thus. Stock exchanges attract small savings especially of large number of investors in the capital market.

Promoting Capital Formation

The funds mobilized through capital market are provided to the industries engaged in the production of various goods and services useful for the society. This leads to capital formation and development of national assets. The savings mobilized are channelized into appropriate avenues of investment.

Wider Avenues of Investment

Stock exchanges provide a wider avenue for the investment to the people and organizations with investible surplus. Companies from diverse industries like Information Technology. Steel, Chemicals, Fuels and petroleum, Cement, Fertilizers etc. offer various kinds of equity and debt securities to the investors. Online trading facility has brought the stock exchange at the doorsteps of investors through computer network. Diverse type of securities is made available in the stock exchanges to suit the varying objectives and notions of different classes of investor. Necessary information from stock exchanges available from different sources guides the investors in the effective management of their investment portfolios.

Liquidity of Investment

Stock exchanges provide liquidity of investment to the investors. Investors can sell out any of their investments in securities at any time during trading days and trading hours on stock exchanges; Thus Stock exchanges provide liquidity of investment. The on-line trading and online settlement of demat securities facilitates the investors to sell out their investment and realize the proceeds within a day or two. Even investors can switch over their investment from one security to another according to the changing scenario of capital market.

Investment Priorities

Stock exchanges facilitate the investors to decide his investment priorities by providing him the basket of different kinds of securities of different industries and companies. He can sell stock of one company and buy a stock of another company through stock exchange whenever he wants. He can manage his investment portfolio to maximize his wealth.

Investment Safety

Stock exchanges through their by-laws. Securities and Exchange Board of India (SEBI) guidelines. Transparent procedures try to provide safety to the investment in industrial securities. Government has established the National stock Exchange (NSE) and over the counter Exchange of India (OTCEI) or investor's safety. Exchange authorities try to curb speculative practices and minimize the risk for common investor to preserve his confidence.

Wide Marketability to Securities

Online price quoting system and online buying and selling facility have changed the nature and working of stock exchanges, formerly. The dealings on stock exchanges were restricted to its headquarters. The investors across the lack of information, but today due to Internet, on line quoting facility is available at the computers of investors, as a result. They can keep track of prince fluctuations taking place on stock exchange every second during the working hours. Certain T.V. channels like CNBC are fully devoted to stock market information and corporate news. Even other channels display the on line quoting of stocks, thus. Modern stock exchanges backed up by internet and information technology provide wide marketability to securities of the industries. Demat facility has revolutionized the procedure of transfer of securities and facilitated marketing.

Financial Resources for Public and Private Sectors

Stock Exchanges make available the financial resources available to the industries in public and private sector through various kinds of securities. Due to the assurance of liquidity, Marketing support. Investment safety assured through stock exchanges. The public issues of securities by these industries receive strong public response (resulting in oversubscription of issue).

Funds for Development Purpose

Stock exchanges enable the government to mobilize the funds for public utilities and public undertakings which take up the developmental activities like power projects, Shipping, railways, telecommunication dams and roads constructions, etc. Stock exchanges provide liquidity, marketability, price continuity and constant evaluation of government securities.

Indicator of Industrial Development

Stock exchanges are the symbolic indicators of industrial development of a nation. Productivity, efficiency, economic-status. A prospect of each industry and every unit in an industry is reflected through the price fluctuation of industrial on stock exchanges. Stock exchanges Sensex and price fluctuations of securities of various companies tell the entire story of changes in industrial sector.

Barometer of National Economy

Stock exchanges are taken as a Barometer of the economy of a country. Each economy is economically symbolized (indicators) by its most significant stock exchange. New York stock Exchange, London stock Exchange, Tokyo stock Exchange and Bombay stock Exchange are considered as barometers of U.S.A. United Kingdom, Japan and India respectively. At both national and international level these stock exchanges represent the progress and conditions of their economies.

CONCLUSION

A Financial Market allows for intermediation of capital between households and firms. Thus we have observed that financial market helps industrial to perform from the following -

- Determines the price of a transaction.
- Provides liquidity by transferring ownership of assets from one agent to the other.
- Performs measurement and management of asset price risk.
- Some Financial Markets only allow participants that meet certain criteria, which can be based on factors like the amount of money held, the investor's geographical location, knowledge of the markets or the profession of the participant

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