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**Financial Markets and Institutions**

**Abstract**

This study explores the financial markets, their types and institutions regulate in financial system. It investigates the type of markets that is operate in India and several financial instruments that and their uses. It also includes the regulators of financial market and their functions that facilitate the flow of fund within the economy. The study focuses on Banks and financial institutions that contribute in the growth on economy**.**

**Key Words**

Markets, Economy, Instruments, Institution, Investor, Regulations, Currencies, Money Market, Capital Market, RBI, SEBI, Bank

* **Overview of Financial Markets**

Financial market can be defining as a market in which financial assets are created and traded between buyer seller lander and fund seekers. Financial market facilitates the buying selling and exchange of financial assets such as stocks bonds currencies and derivatives. In this market individual institutions and government can buy and sell financial instruments with different purposes. This market places a bitter roll in economy it facilitates the flow of fund from investors to landers and fund seekers. It is important for economic growth because it allow individual to raise money companies to raise funds regarding their projects that can contribute in economy. Financial market give place to financial institutions in which the facilitated the flow of financial instrument financial market is not just a physical place it can be a physical digital. The goal of financial markets is to efficiency distribute the economic resources to promote the economic growth and generate a return on investment for those who invested and participate in the market.

* **Types of markets**
1. **Money Market:**

Money market is defined as the market of debt security with a maturity period of 1 year or less and often 30 days. It is a wholesale debt market in which risk is low and highly liquid for short term instruments. In this market funds are available for period ranging from a 1 day to a year. The market player in this market are government, banks, institutions, and individuals. Money market securities are generally safe investment which return a low interest rate that is used to remove temporary cash shortage or for short term investment. It is better known as a place in which large institutions and government used to manage their cash needs or for investment purpose.

Money market can be of two types:

1. Organised Money market: Organize money market comprises of several commercial bank, financial institutions, and all short-term instruments securities trading institutions that are registered under any monetary authority.
2. Unorganised money market: It is a very strong unorganized money market this market is run in those countries which are developing but not fully developed people and companies taking loans and debt from their relatives and other persons instead of taking it from registered organized institution.

Money Market Instruments:

* Call Money
* Notice Money
* Term Money
* Treasury Bills
* Certificate of Deposit
* Commercial Papers
1. **Capital Market**

 Capital market can be defined as a market for long term debt securities with the maturity of more than one year it is a market in which individual, companies, government response for long term. The tenure of capital market is more than one year. The different type of financial instruments is traded in the capital market such as equity instrument, foreign exchange instrument, hybrid instruments. It is used for investment and raising funds for long term and companies prefer capital market to raise funds for their projects. Capital market is divided into two types one is primary market and secondary market.

**2.1 Primary capital market** also known as new issue market or NIM it is a market in which security is introduced or sold for the first time to the public. This market is long term in which fund raised in this market provide long term benefits to issue shares or purchasing in the primary capital market follows a particular process and require lots of rules and regulations. Way of offering issues in the primary capital market are:

* Initial public offering (IPO)
* Follow-on public offer (FPO)
* Preferential issue
* Rights issue

**2.2 Secondary capital market** refers the market which deals with those security which are already issued in a primary capital market in this the security is a transferred from one investor to another investor it is highly liquid market with high transparency. In secondary capital market the price of security is depend on the demand and supply of the security. Types of secondary market:

* Stock Exchange
* Over-the-counter (OTC) Market
1. **Forex Market**

 Foreign market exchange also known as forex market is a place where currency is bought, sold and exchange between different countries. This market operates 24 hour a day 5 day a week due to different time zones this markets open 24 hours in major financial centers worldwide. It is the largest and most liquid financial market in the entire world this market facilitates international trade and investment by enabling to convert the currency into another so that the global trade and financial transaction happen easily. It allows individuals, Government, and companies the excess of international market by providing them the currency of different countries. Foreign market used by government, Central banks, financial institutions, corporates, and individual traders for the different purposes. Exchange rate in forex market is depend on various factors such as interest rate, geopolitical changes, economic stability, and different market behaviors.

The main types of forex market are:

* 1. Spot Market: Sport market is a forex market type in which currencies are bought and sold for immediate delivery. The exchange rate in the transaction of spot market is current exchange rate at the time of the trade. In this market the exchange of currency happens on sport or on immediate basis and the transaction is settled within two business days refer as (t + 2). This market facilitates immediate currency exchange for various purposes such as tourism, trade.
	2. Forward Market: Forward Market involves contract or agreement to purchase or sale a currency for future day and at a pre determine exchange rate that is fixed by the parties involve in forward exchange. In this delivery and exchange happen on a future date that is decided prior. This contract our customizable and adjust according to parties and traded over the counter (OTC)And this type of market hedge involved against the exchange rate risk. It allows participants to fix a future exchange rates to managing any potential currency fluctuation risk.
* **Functions of financial markets**
1. **Increase Liquidity**: Financial market increase liquidity by providing investors a place where they easily buy or sell assets and convert them into case without affecting their prices. This liquidity provide flexibility in investment decision and insured they that investor can convert assets into cash when needed.
2. **Price Determine:** Financial market provides a place where prices of financial securities assets stock bonds determine by the market forces of demand and supply this help individual companies and government to make decision about buying and selling of security or asset.
3. **Capital Allocation**: Financial market links those who has surplus money and those who need the fund and act as an intermediate or this ensure that the capital is allocated in a way that it can be used in productive investment and enhance economic growth and development
4. **Mobilization of Savings**: By offering a platform in which various instruments are buy and sell financial market encourage those who has saving and convert the savings into investment for a productive purpose and contribute in economic growth
5. **Risk sharing:** Financial market allow investors to invest in a lot of option so they can reduce their overall risk by diversify their portfolio and this market provides tools like derivatives so participant can head or manage a specific risk.
6. **Facilitate International Trade:** Financial market enhances the international trade and investment by facilitate exchange of currencies and securities between different countries this contribute in the development of globalization by providing businesses and investors a market beyond National boundaries.
* **Financial Instruments**

 Financial instruments refer as a contract or agreement that represent any monetary value or have any value. These instruments are tradable with in a market and provide a right to receive or deliver cash or any other financial asset.

Here are some types of financial instruments:

* Stocks: Stocks also known as equity or shares it represent in the ownership in a company. When anyone own stock of any company it means they own a portion of that company and they are part of that company ownership and entitled to a share of its assets and profits.
* Bonds: Bond the type of debt security that represent loan. It is issued by government, municipalities, corporations, and other entities with the purpose to raise capital. Bond represent a lone in which the bond issuer collect fund from the lenders with the exchange for regular interest payments and the return of the bonds face value when it measures, and maturity period of bonds is always fix.
* Derivatives: Derivative are financial contract whose value is based on the underlying asset or security. In simple term derivatives are those financial contracts whose value is based on the performance or value of another asset like stock, bonds, commodities. This instrument is mostly used in financial markets for hedging risk or speculation with the purpose of profit or his is complex type of instrument.
* Commercial Papers: Commercial paper is a and secured money market debt instrument with his maturity period ranging between few days to 270 days. It is issued by corporation to finance their working capitals day today operation and expenses. They are mostly issued at discount a redeem date face value and it has fixed maturity period and only high network organizations can issues commercial papers.
* Treasury Bills: It also known as T-bill it is a short-term debt instrument which is issued by government to fulfill its funding needs and manage National debt. It is issued by Central Bank of India on the behalf of government, when government faces short term fund requirement they issue treasury bills. Treasury bills are issued on discounted value and redeem at face value. The time of treasury bills is ranging between less than 1 year. Treasury Bills are highly liquid in nature they can easily sell or bought into the secondary market before their maturity they are transferable instrument. It is one of the safe financial instruments because they are begged by the government and it make them risk free.
* **Market Regulation**

Market regulations are the rules and regulations that is used to govern the operations or activities and conduct of financial market operations. These rules and regulation used to maintain stability fairness, transparency with in the market operations. These regulations give confidence to investors and assurance that they are operating in a safe market or these regulations are important for maintaining the trust and confidence on the system of the investors with in the financial markets. For rules and regulation each sector has their independent regulatory body that is responsible for the activities that is happen within the market.

Here are two main regulatory bodies:

1. **Reserve Bank of India**: Reserve Bank of India also known as apex financial institution of India and Central Bank of India is the supreme bank which is established in 1935 under the Reserve Bank of India act. It is playing a most important role with in Indian economy by circulating and maintaining the flow of fund and liquidity within the market. Initially it operates as a private bank and nationalized in 1949 bringing it under full governmental control. It is RBI responsibility to made a monetary policy and regulate the financial institutions and managing the currency flow or stability with in market. RBI control the inflation rates or liquid through various tools like repo rate, reverse repo rate, CRR, SLR and contribute in economic growth. It is also known as banker of the bank because it provides loans and capital to bansuri main functions and objectives include controlling inflation, maintaining stability and facilitate countries interest rate for and foreign exchange and maintaining gold reserves.

Functions of RBI:

* Regulator of the Financial System: RBI is the regulator of banks it creates laws, regulations and supervise the banks and other financial institutions to maintain the trust and protection of investors and insure the soundness of the financial system. RBI take responsibility when any unfair practice is happened in the market and take legal action against financial institutions who do unfair practices.
* Monetary Authority: RBI formulate monetary policies with the purpose to control liquidity, inflation rate, economic stability, and economic growth with in financial system with the help of interest rate like SLR, reverse repo rate, repo rate, CRR. RBI influence the liquidity with in the market and make sure that flow of money in happen within the market.
* Currency Issuer: Only RBI has the authority to issue currency notes in India. It manages the liquidity and supply of currency with in the economy and destruction of damage notes is also done by RBI. RBI ensure that the educate number of currencies available in the market.
* Debt Management: RBI is responsible to manage the governments debt RBI issue security on the behalf of government conducting auction and managing the government debt and their account and reserve. RBI must meet government financing need when it is needed and at the lowest cost.
1. **Securities and Exchange Board of India (SEBI):** The security and exchange board of India as a regulatory body for regulating Indian security market established in 1988 with the purpose to regulate the security market. After 4 years of establishment in 1992 SEBI has given statutory powers through SEBI act. SEBI primary objective is protecting the interest of investor and promoting the development of security market. It regulates the security market make laws and regulations, do surveillance, and maintain the stability, fairness, and code of conduct with in the market. It plays a crucial rule in maintaining market integrity through supervising and monitoring it take actions against market manipulation and unfair trading practices like insider trading, violation of rules and regulation and maintain the trust and confidence of investors.

Functions of SEBI:

* Regulatory authority: SEBI regulate the security market and security exchanges like Bombay stock exchange, national stock exchange and other that is operated in India. It ensures that each exchange operate in a transparent, efficient, and fair manner.
* Promote education & protection: One of the SEBI functions is educating investors about security market the purpose is to increase the knowledge of investors regarding market and protect them from any fraud or loss. It increases the investors awareness through various programs.
* Manage IPO: SEBI monitors the issuance of securities (IPO) and circulation of existing security it ensures that issuer of security (IPO) is provide the necessary disclosure information regarding their risk, financial data and operation and ensure that it follow fair practices and rules and regulations.
* Taking benefits of non-public material information regarding the company and use it in buying and selling of shares is prohibited by SEBI. It is known as insider trading SEBI monitor that no unfair trading practices happen in market end prevent investors from insider trading.
* **Banking and Financial Institutions:**

Banking and financial institutions play a vital role in the economy by managing the flow of money and offering essential financial services. They provide services like depositing money, offering loans and credit, wealth management, insurance, and payment services. These institutions help us save, borrow, invest, and grow our money, making our financial lives more manageable. Ultimately, they support us in reaching our financial goals, whether it is buying a home, funding education, or planning. Some of the financial institution which provide these services are credit union, insurance companies, investment brokers, banks.

Role of banking and financial institution

* Capital mobilization and formation: It is one of the primary functions of financial institution to mobilize the fund of individual, business, and other entities within the economy by encouraging savings into productive investment.
* Risk management: Financial institutions help in managing financial risk through portfolio diversification and the use of advanced risk management tools. By spreading investments across various asset classes and sectors, they reduce the impact of market volatility on overall returns.
* Long-Term Investments and Infrastructure Financing: Economic development requires sustainable investment in long term. financial institution such as investment banks provides long term loan for infrastructure development projects.
* Financial Intermediation and Efficiency: Banks and financial institutions connect people who have extra money with those who need it. By acting as intermediaries, they ensure that savings are used in the most effective way possible. They help direct money to where it can make the biggest difference, supporting projects and businesses that drive progress and create value in the economy.
* Global Financial Integration: Financial institution facilitates global economic integration by connecting domestic markets with international markets. cross border investments, foreign direct investment (FDI), and international trade depends on the services offered by financial institutions. This integration opens opportunities for economic growth through access to international capital, markets, and expertise.

Functions of banks and other institutions:

* Accepting deposits: Financial institution and banks accept the deposits of individual, business entity and organization in form of Saving account, fixed deposits current deposits.
* Granting loans and credit: Financial institution and banks provide loan facilities for

 long-term and short-term uses different types of loan services are personal loan, mortgages, business loans and credit card facilities.

* Investment and Securities Trading: Financial institution also provide treading platforms where individual can exchange and invest in securities, share and bond
* Financial Planning and Advisory: Financial institution also provides financial advisory of tax planning, financial goal setting and tax planning.
* Foreign Exchange Services: Financial institution facilitates the exchange of foreign currency and support international trade financing.

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