FINANCIAL MARKET

Financial market refers to that market in which equity shares, loans, bonds, treasury, bills, commercial paper etc. financial assets are created and exchanged. Financial market does not need a particular space or geographical area. It denotes only financial transactions. It includes both money market and capital market. Thus, financial market is a system in which credit giving institutions and people sell and purchase short-term, medium-term and long-term securities through mutual transactions. It is an important part of the financial system of any economy. This market encourages savings and investments.

Gant has Said, “A financial market is a mechanism which makes it possible for borrowers to obtain funds and for lenders to find suitable outlets for their finance.”

Thus, financial market refers to that complete area where financial assets are sold and purchased.

FUNCTIONS OF FINANCIAL MARKET

(1) **Mobilization of saving :** It is the nature of the people that they spent a part of their total income and save the remaining. If they keep their savings with them, it is called passive or inactive saving.

(2) **Pricing of Financial Instruments :** Like the general rules of economics, prices of financial instruments are determined by the forces of demand and supply. The investors consider their investment safe and also earn fair profit.

(3) **Liquidity of Financial Assets :** Financial asses can be sold in the financial market to obtain liquid money. Similarly, long term securities can be purchased with the help of liquid money.

(4) **Reducing the Cost of Transactions :** Financial market is an arrangement through which the probable sellers and purchasers of financial assets come in contact with one another and sell and purchase through brokers. Since, the brokers need not search the sellers and purchase; they can provide their important services at the minimum commission. This reduces the cost of transactions

KINDS OR CLASSIFICATION OF FINANCIAL MARKET

Financial market can be divided into two classes :

A. Money Market
B. Capital market

A. **MONEY MARKET**

Money market refers to all those activities and institutions which relate to sale and purchase of money. Sale and purchase of money refers to granting and receiving loans. Generally, loans are both short-terms and long-terms but there is only exchange of short-term loans in the money market. In other words, like the market of commodities, money too has its market and there are sellers and purchasers in this market. The purchaser of market includes all those people, traders and industrialists who take loan from this market for the purpose of production. On the other hand, the seller of money includes those people and creditors who give their money as loan to those people who need it. Just as in the market of goods and commodities, the prices are determined by the force of demand and supply, similarly in the money market, the value of money is determined by the demand and supply of money. This determined value is referred to as the rate of interest.

B. **CAPITAL MARKET**

Capital market refers to such market in which all those facilities and institutions are included which are involved in the functions of meeting the long-term financial requirements. The main practice in this market is sale and purchase of share and debentures. This market encourages people to invest their small saving in productive activities . This benefits the investors, those who demand finance in the economy.

Nature and Features of Capital Market

(1) Important Component of Financial Market: There are two parts of financial market: Money market and Capital market. The capital market plays an important role in fulfilling the long-term financial requirements of the economy. The development of industries has taken place due to capital market only.

(2) Dealing in Securities: Long-term securities refers to such securities which have more than one year of maturity period. This market deals in marketable and non-marketable government and non-government securities. The marketable securities includes shares and debentures issued by companies and bonds etc. issued by the government while the non-marketable securities include the fixed deposits with banks and companies and loans and advances given to industrial institutions.

(3) Segments: There are two segments of the capital market-Primary market and secondary market. New shares are issued in the primary market while previously purchased shares are sold and purchased in the secondary market.

(4) Intermediaries: The capital market works through various intermediaries which include under writers, mutual funds, stock brokers, banks etc.

(5) Investors: There are both individual and institutional investors investing in long-term funds in the capital market.

(6) Flow of Capital: This market makes the flow of capital from investors to the needy people. This provides an economic stage to those who demand capital and those who supply capital.

(7) Helpful in capital Formation: There is opportunity of investment in the capital market. It brings profit. This profit is again invested and the sequence goes on. This leads to capital formation.