(5) Capital structure having proper ratio of equity and debts means .....

(A) Optimum capital structure (B) Simple capital structure

(C) Working capital structure (D) Equilibrium capital structure

(6) Which of the following statements is not true with reference to the concept of net working capital ?

(A) Excess of current assets over current liabilities

(B) Does not show the liquidity position of the company

(C) Provides proper measurement for working capital

(D) Increase in current liability does not increse net working capital

(7) How many types of capital structure are there ?

(A) Two (B) Three (C) Four (D) Five

(8) From which capital is dividend paid ?

(A) Paid up capital (B) Authorised capital (C) Called up capital (D) Working capital

(9) Which statement is true with reference to fixed capital ?

(A) Invested upto 5 years in business

(B) Components are debtors, bill receivable, bank balance etc.

(C) Ratio of liquidity is less (D) Investment can be withdrawn easily

(10) With whom has the foreign investment institution get registered ?

(A) Company registrar (B) Court (C) Stock exchange (D) SEBI

(11) Excess of current assets over current liabilities means .....

(A) Positive working capital. (B) Negative working capital.

(C) Equilibrium working capital. (D) Gross working capital.

2. Answer the following questions in one sentence each :

(1) Financial management is related with which type of financial decision making ?

(2) Which are the approaches adopted by financial management to achieve maximum economic welfare of the owner ?

(3) Which objective is acceptable for financial management ?

(4) What does capital structure consist of ?

(5) In which form dividend can be paid to the shareholders ?

(6) Which type of shares must be issued by a company procuring capital fund by issuing securities ?

(7) For which type of security issue the expense is comparatively less ?

(8) With whom foreign investment insitution has to register itself ?

(9) What are the components of fixed capital ?

(10) Why depreciation is not charged on the assets in which working capital is invested ?

3. Answer the following questions in short :

(1) What does the objective of owner's maximum economic welfare mean ?

(2) What are the factors affecting investment decision ?

(3) "Capital structure is a mixture of owner's capital and debt." - Explain.

(4) What is meant by optimum capital structure ?

(5) "Working capital means circulating capital in business." - Explain.

(6) What is production cycle ?

4. Answer the following questions in brief :

(1) Explain the concept of financial management through various definitions.

(2) Explain the objectives of financial management.

(3) Write Notes : (1) Decisions related to investment (2) Decisions related to dividend

(4) State the factors affecting working capital.

5. Answer the following questions in detail :

(1) Explain the importance of financial management.

(2) Discuss the factores affecting the capital structure.

(3) Giving the definition explain the concept of working capital.

(4) Distinguish between :

(i) Gross working capital and net working capital.

(ii) Fixed capital and working capital.

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9 FINANCIAL MARKET

What you will learn in this chapter ?

Introduction

Indian financial structure is mainly divided into two part. Formal or organised financial market and unorganised financial market. Financial market is an important component of the organised financial structure. Organised financial structure consists of mainly four components : (1) Financial institutions (2) Financial instruments (3) Financial services and (4) Financial market. Financial market includes capital market and money market. Capital market is an organised market which provides capital in form of funds from the savings of the society. So capital market is a source of long term capital funds for industrial enterprise. Capital market becomes helpful in the economic growth of the country. Money market satisfies the need of capital through short term instruments such as treasury bills, commercial papers.

9.1 Concept of Financial Market

Financial market includes mainly capital market and money market. Financial market is an important component of financial structure where transactions are carried out on large scale. Investors can decide on their own when and where their savings should be invested based on the perception of trends of financial market. Participants in financial market include (1) Issuers of various type of securities, i. e. borrowers of money. (2) Purchasers of securities i. e. financiers. (3) Financial intermediaries, i. e. financial institutions

Financial market is mainly divided into two parts : (1) Capital market and (2) Money market. Capital market is a market of long term securities. e.g., Shares, debentures, bonds, etc. While money market is a market of short term securities such as treasury bills, commercial papers etc. Capital market is divided into two parts : (1) Primary market and (2) Secondary market. Secondary market includes stock exchange. Primary market is a market of newly issued securities. While secondary market means stock exchange where existing securities are transacted which have been issued already.

Financial Market

- Capital Market
  - Primary Market
  - Secondary Market (Stock Exchange)
- Money Market

9.2 Money Market

9.2.1 Meaning and Concept : Money market is a market for short term instruments (assets). Money market means a market for assets or instruments which are close substitutes for money.

Financial assets, having high liquidity are traded in money market. It is a market of borrowing money and lending money for a short term. It is a market for securities having a maturity period of one year or less than one year.

There are two parties in money market, one is lender and the other is borrower. Reserve bank, commercial banks, co-operative banks, shroffs etc. are mainly included in the group of money lenders; while farmers, traders, state governments, central government are the borrowers of money.

Money market is not a physical location like stock exchange, but group of various institutions trading or dealing in money.

Short and simple definition of money market can be given as follows :

Definition of Money Market : Money market is a market for dealing in short term financial assets, having high liquidity with close substitutes of money.

9.2.2 Characteristics :

(1) Money market is divided into two parts : Organised money market and Unorganised money market.

(2) It is a market for short term assets or instruments, the maturity period of which is one year or less than one year.

(3) Credit worthiness of participants in money market is important.

(4) Money market is not a fixed physical location but a collective structure of various institutions like Reserve Bank of India, commercial banks, financial institutions, mutual funds, insurance companies, etc.

(5) It is a market of financial instruments which are promptly convertible into cash. e.g. Treasury bills, call money.

(6) Sub-branches of money market also develop with economic and technological development, such as call money market, bond market, treasury bills market etc.

(7) Most of the financial instruments are debt instruments. Element of risk is less as compared to other financial instruments.

(8) The success and operation of money market depends on the banking system and financial institutions.

9.3 Organised Money Market and Unorganised Money Market

Money market of India can be divided into two parts :

(A) Organised Money Market (B) Unorganised Money Market

(A) **Organised Money Market :** As it is a formal money market, it consists of Reserve Bank of India, Commercial banks, Mutual funds etc. Organised money market in India is regulated by Reserve Bank of India.

Reserve Bank of India changes rate of interest to maintain adequate liquidity as per requirement in money market. Organised money market includes financial instruments like treasury bills, certificate of deposits, call money etc. Organised money market is being systematically co-ordinated and regulated by Reserve Bank of India.

(B) **Unorganised Money Market :** As the unorganised money market is informal, there is no regulation of any centralised institution on it. Activities are carried out without any rules and regulations. This money market consists of money lenders, landlords, pawn, indigenous bankers, shroffs etc. There is a lack of co-ordination among all these. The activities of unorganised money market have developed in rural areas of India, though it is also found in urban areas.

9.4 Instruments of Money Market

The maturity period of money market is either one year or less than one year. Secured and unsecured, both the types of instruments are traded in money market. The main instruments of money market are as follows :

(1) Treasury bills (2) Commercial papers (3) Certificate of deposits (4) Commercial bills (5) Call/Notice money

9.4.1 Treasury Bills : Treasury bill is a short term financial instrument which is issued by Reserve Bank of India on behalf of Government of India. Treasury bill is an important component of money market all over the world. Government procures borrowed money for a short period through treasury bill. It possesses cash liquidity as the maturity date of treasury bill is either 91 days, 182 days or 364 days. Treasury bill is a zero coupon bond because interest is not paid on it. It is issued at discount and redeemed at par. e.g., Treasury bill of ₹ 25,000 is issued at ₹ 23,500 and the investor is paid the value, at par i.e. ₹ 25,000 on maturity date. Thus the difference between these amount is a return for investor. Treasury bill is also known as ‘T-Bills’.

9.4.2 Commercial Paper : Commercial paper became more popular at the world level after 1980. Reserve Bank of India issued commercial papers first time in January, 1990. Commercial paper is an unsecured and short term document like promisory note. It is an instrument to procure short term fund. It is issued by corporate institutions having high credit worthiness whose financial condition is strong. It is a negotiable instrument and therefore transferable. Corporates and financial institutions can issue commercial paper for minimum seven days and maximum one year. It is regulated by Reserve Bank of India. It is issued for ₹ 5 lac or its multiples at discount and it is also known as finance paper, industrial paper and corporate paper.

9.4.3 Certificate of Deposits : Certificate of deposits is unsecured, negotiable instrument to procure short term finance. Scheduled commercial banks and financial institutions can issue it. Certificate of deposits is quite different from fixed term deposit receipt. Certificate of deposits is negotiable and can be sold; while fixed term deposit receipt is not negotiable and can not be sold. Scheduled commercial banks are free to issue as per their requirement within the limit of some conditions. The price of certificate of deposit must be minimum ₹ 1 lac.

9.4.4 Commercial Bills : When goods are purchased on credit, the trader selling the goods draws a commercial bill on the other trader purchasing the goods. Commercial bill is negotiable and arises out of business transactions. It is an unconditional order to pay certain amount in full.

There are many types of commercial bills such as exchange bill, hundi, inland bill, demand bill, foreign bill etc.

When a bill is drawn by the seller on buyer, this bill becomes "Trade Bill" and when this bill is accepted by the commercial bank, this bill becomes "Commercial Bill." This bill is discounted by commercial bank deducting discount. If the bank requires money, it can rediscount it with the financial institutions. Generally, commercial bills are for the period of 30, 60, 90 days.

9.4.5 Call and Notice Money : Commercial banks have to maintain minimum cash balance as per the rules and regulations of Reserve Bank of India, which is called cash reserve. One bank borrows money from the other bank to maintain minimum cash balance. All the banks have to maintain ratio of cash reserve. For this reason, call money market becomes the important component of money market. Call money market includes call money and notice money. No mortgage is to be given for call money and notice money.

Call Money : When money is borrowed or lent for one day it is called call money. It is a transaction one day. Mostly banks are the participant in call money so it is called "Inter-Bank-Call Money" market.

All the commercial banks have to maintain cash reserve ratio as per the rules and regulations of Reserve Bank of India. So the bank having shortage of cash borrows money from the other bank who has excess of cash. In short, loan of one day is called call money.

Notice Money : When money is borrowed or lent for 2 to 14 days, it is called notice money.

9.5 Capital Market

Financial market is mainly classified into two parts : (1) Capital market and (2) Money market- Capital market includes two markets : (1) Primary market and (2) Secondary market

9.5.1 Meaning of Capital Market : Capital market is an organised market which provides funds in the form of capital to industrial enterprises through the savings of the community. It is a source of long term capital fund for industrial enterprises. Long term securities like shares and debentures are traded in capital market. Capital market is a market for all types of securities like industrial securities and government securities. Capital market becomes helpful in the economic growth by mobilizing the savings of community.

9.5.2 Characteristics :

(1) It is a market for long term capital fund.

(2) Instruments of capital market include government securities, debt instruments, securities of industrial enterprises like shares, debentures.

(3) Investment of fund is in long term securities.

(4) Regulation of the SEBI is on capital market in India.

(5) Title of ownership of securities like shares, debentures is transferred.

(6) Provides liquidity to financial assets (securities).

(7) Capital market is divided into two parts :

(i) Primary market and (ii) Secondary Market

9.6 Primary Capital Market

9.6.1 Meaning : It is a market of newly issue securities. So, primary market is called market of newly issued securities. The investors buy only newly issued securities as it is a market for new issued securities. Primary market means a market for selling new securities in order to raise capital fund.

9.6.2 Characteristics :

(1) It is a market for newly issued securities.

(2) New securities are sold and investor can buy.

(3) There are numerous intermediaries in primary market like book running lead manager, registrar of issue, sharebroker, etc.

(4) New capital is issued through prospectus in primary market.

9.7 Secondary Market-Stock Exchange

9.7.1 Meaning and Explanation : The oldest and first stock exchange of India was formed on 9th July, 1875 as a "The native share and stock brokers' Association." Which is known as Bombay Stock Exchange today. Ahmedabad Stock Exchange started in 1894.

Stock exchange is an organisation which provides facilities to share brokers and investors to buy and sell shares, debentures and other securities. It is an organised market for the trading of existing securities. The place providing facility to buy and sell securities means stock exchange.

● According to **K. L. Garg,** "Stock exchange means a place for buying and selling industrial and financial securities like shares and debentures of a company, government securities, municipal securities."

9.7.2 Characteristics :

(1) **Registered Corporate Body :** It is registered established corporate body to bring out rules and regulations in the transactions of securities.

(2) **Approval of Government :** Stock exchange have to obtain approval of the central government as per the provision of Securities Contracts (Regulation) Act, 1956.

(3) **Organised Market :** It is an organised market for dealing in existing listed securities.

(4) **Membership :** Membership of stock exchange must be obtained for dealing transactions in stock exchange.

(5) **Market of Securities :** Stock exchange is an approved organised market for buying and selling of securities.

(6) **Listing of Securities :** The securities which are listed on stock exchange are transacted in stock exchange.

(7) **Management :** The administration and management is conducted by board of directors.

(8) **Strict Control Over the Members :** The board of directors exercises strict control over the members through the disciplinary powers granted to them.

(9) **Organisational Structure :** The organisational structure of stock exchange is in the form of public company.

(10) **Regulation of Stock Exchange :** All the stock exchanges in India are regulated by SEBI and Securities Contracts (Regulation) Act.

9.7.3 Functions :

(1) **Liquidity :** Stock exchange provides continuous market for purchase and sale of securities. Investors can purchase and sale securities whenever they want. It is possible because stock exchange provides ready market. To accord liquidity to the securities is an important function of the stock exchange.

(2) **Valuation of the Securities :** Valuation of securities is possible on the basis of demand and supply of the securities. The investors can know the value of their securities. The valuation of securities can also be useful to the government and creditors. Other factors like dividend declared by the company, factors affecting money market are also important in determining the valuation of securities.

(3) **Conversion of Savings into Capital :** The individuals of the society who have savings and wants to invest in securities can easily purchase securities. Their savings are converted into capital.

(4) **Intermediary in the Creation of Capital :** Stock exchange itself does not create capital, but provides the platform for the purchase and sale of securities. It plays the role of intermediary.

(5) **Safety in Transactions :** The transactions are carried out as per the rules in stock exchange. The brokers working in stock exchange perform their role under the regulation of SEBI. So, the transactions are carried out safely. The stock exchange provides safety to investors as the transactions are carried out in stock exchange as per the rules and regulations of stock exchange.

(6) **Growth of Capital Market :** Savings of public can be diverted towards industrial flow due to stock exchange. Industries as company form get long term capital which encourages savings of public towards investment in securities. So, economic development of the country is possible along with the development of capital market.

(7) **Facilities to Perform Activities :** Stock exchange provides facilities to its members to perform their activities. So, the members of the stock exchange can protect the interests of the investors.

(8) **Necessary Facilities for Speculation :** Healthy speculation keeps the stock exchange alive. Stock exchange provides necessary facilities for the transactions of speculation within the legal structure.

(9) **Information Provider :** Stock exchange provides that type of information which can be useful to the various parties. E.g. : Information about changes in the price of securities, flow of purchase and sale of securities etc. is useful to the investors, companies, government, SEBI. All these information are useful to government in formulation of economic policy, financial policy. Above this, it indicates the economic condition and growth of company and nation. It is a mirror reflecting the economic condition of the country. So, the stock exchange is called the barometer indicating economic condition of the country.

(10) **Listing of Securities :** If company desires that the transactions of securities are conducted in the stock exchange, it may get its securities listed on stock exchange. Investors have more trust in listed securities.

(11) **Guidance to Investors :** Stock exchange discloses the collected information of listed companies. On the basis of this information investors can decide which investment in securities of company is to be withdrawn and to be invested in which type of securities of the company.

9.8 Concept of Demat Account

In the past, companies provided shares in physical form to the share holders. Generally the shares which were in the paper form were known as share certificates. Share transfer form was to be duly filled for the transfer of shares and physical shares were to be sent to the company along with it. This entire procedure was lenthy and tedious. To eliminate all these difficulties, securities like shares, bonds, government securities, units etc are preserved in electronic form. These physical securities are maintained in electronic form by the depository institutions.

Dematerialisation means conversion of physical securities into electronic data through computer. This dematerialisation is known as demat in short. Investors get option under Depository Act 1996 to hold securities either in physical form or dematerialised form. Investor have to open demat account with Depository Participant, if he wants Depository services. Depository Participant is either representative or agent of depository. Depository provides demat service through his representative or agent. An investor will have to give dully filled form requesting to Depository Participant for opening demat account.

9.9 Depository

9.9.1 Meaning and Explanation : In India, a company registered under Companies Act can perform work as Depository. Depository Act came in force from August 1996. Depository have to obtain certificate of registration from SEBI before starting its operation.

Operation of depository is regulated by Depository Act and SEBI. Demat account and dematerialisation are at center of the depository process.

The primary function of depository is to convert physical securities into electronic form and to preserve it into electronic form. Above this, to provide service related to transactions of securities.

At Present there are Two Depositories in India : (1) NSDL-National Securities Depository Limited and (2) CDSL-Central Depository Services (India) Limited.

Above both the depository provide their services through intermediaries who are their representative or agent who are called Depository Participant. Banks, financial institutions, share broker can work as a Depository Participant.

9.9.2 NSDL-National Securities Depository Limited :

NSDL is a public company formed under the Companies Act. It was registered with SEBI in 1996. NSDL was promoted by National Stock Exchange and with the collaboration of some financial institutions. It is managed by board of directors as the NSDL is incorporated in the form of public company under Companies Act. NSDL performs its functions through depository participants appointed by it. Fees is charged from depository participant and not from the investor customers. Investor has not to pay any expense directly to NSDL. Depository participant charges some fees from the customer/ investor. This institution provides online service for dematerialisation, rematerialisation, electronic settlement of transactions, crediting right and bonus shares in customer's account, freezing customer's account, etc.

9.9.3 CDSL - Central Depository Services (India) Limited : Central Depository Services (India) Limited (CDSL) was incorporated in 1999 with collaboration of Bombay Stock Exchange and banks. The objective of CDSL is to provide easy and safe services to investors. The list of participants registered with it is published time to time on its website. CDSL provides online depository service all over India.

All over India, all services of depository of CDSL and NSDL are available to investors at door as the depository participants are connected electronically with them. The centralised system of NSDL and CDSL keeps an eye on every transactions.

9.9.4 Depository Services :

(1) **Dematerialisation and Rematerialisation :** It maintains physical securities of investors in electronic form through dematerialisation. It preserves securities in demat account. As a result there is no fear of theft and destruction of securities. In this sense, depository is considered as a bank maintaining securities. The rematerialisation of demat securities is also made as per the desire of investor.

(2) **Easy Transfer of Securities at Less Expenses :** Prompt transfer of securities takes place due to depository service. It decreases the paper work. Problems connected with the transfer of physical shares are removed. E.g. : Fake transfer, bad delivery. Moreover saving occurs in brokerage expense, postage expense, courier expense, stamp duty etc for the investor. Only single share can also be transferred due to depository.

(3) **Prompt Settlement of Transaction :** Settlement of transaction becomes speedy due to depository. The depository participant transfer securities promptly. The securities or cash are received immediately with the settlement of transaction. Investor does not require a correspondance with the company. The settlement of transactions among various parties take place through electronic system.

(4) **Record in Customer's Account :** Receivable bonus shares, over and above the right shares shares allotted through public issues are credited in customer's account by electronic system.

(5) **Facility to Mortgage :** It provides facility to mortgage securities and to obtain loan against securities.

(6) **Facility to Freeze or Close Account :** In case of going abroad for a long period or closing the account for a short period, it provides facility of freezing the account for that period.

(7) **Record and Storage of Information :** It keeps the record of each transaction connected with securities in demat account. Information remains safe and is stored in such a way that it is available when required.

(8) **Link between Investor and Clearing House :** Provides service as a link between investor and clearing house in the transactions of securities and in the settlement of transactions.

(9) **Service through Internet :** Depository provides service to investor through its depository participant through internet at fair price. Provides latest information to customer of his account.

9.10 Trading Procedure of Securities

Few years ago, share brokers used to gather in the stock exchange of India at a fixed time. They were dealing in transactions on the floor by outcry and with the different signs of hands. Now, online screen based electronic trading has come into existence in place of old traditional system. Online trading system is in existence in all the stock exchanges of India. National stock exchange and over-the-counter exchange have adopted screen based online trading system right from their inception. Bombay Stock Exchange and National Stock Exchange have introduced fully self automated screen based trading system all over the nation. The screen based trading system of National Stock Exchange is known as NEAT-National Exchange for Automated Trading and screen based trading system of Bombay Stock Exchange is known as BOLT-BSE Online Trading.

Investors can buy and sell their securities online because of internet trading system. The order for purchase and sale of securities are placed by investors through the use of internet in such a manner that they can be executed through broker. The procedure of purchase and sales of securities online can be stated as follows.

(1) **To Open Demat Account :** An investor has to open a demat account with depository participant because buying and selling of only demat securities can be carried out on internet.

(2) **Order to Buy-Sell :** Investor/Customer who wants to sell securities has to place the order to broker. Purchase and sale price as per script are to be stated clearly at the time of placing the order. There are two types of order in purchase and sale of securities.

(i) **Limited Order :** Limited order is one in which order is executed at the price specified by the customer. The price of purchase and sale is pre determined. Retail investors and fund houses place this type of order.

(ii) **Market Order :** Market order is one in which order is executed at the latest quoted price on the trading screen or at the offer price in market.

(3) **Execution of Order :** Broker executes the order as the order is received by broker. Broker places the order in stock exchange. Broker can deal in transaction from his office through online trading on behalf of the customer.

(4) **Contract Note :** Contract note is that in which a broker makes a note after buying – selling of securities as per the order of customer. Contract note is a confirmation of the day on which transaction is dealed. Generally, the broker sends Contract note to the customer within 24 hours after transaction is dealed. Name of the security, its number, price of transaction, order number, brokerage, taxes applicable etc are stated in Contract note. Contract note is a document of transaction done.

(5) **Settlement of Transaction :** The settlement of transaction of purchase-sale of securities is through settlement house in Bombay Stock Exchange. While NSCCL-National Securities Clearing Corporation Limited performs the settlement of transaction done in National Stock Exchange. Settlement of transaction occurs after a day of transaction or trade.

(6) **Payment of Amount and Delivery of Security :** If the customer has purchased the shares, payment for the same is to be done prior to the pay-in day. If the shares have been sold, delivery of shares is to be done prior to pay - in day. If customer has purchased shares, delivery is done to him on pay-out day. Customer receives money on pay-out day, if shares are sold by the customer.

Pay-in day means the day when the seller of the shares makes delivery of the shares sold to stock exchange through intermediary. Pay-out day means when stock exchange makes delivery to the purchaser of shares and makes payment to seller of shares.

(7) **Inform to Customer of Settlement of Transaction :** Broker will make the payment to the customer through bank in case of sale of securities, and in case of purchase of securities broker will make direct payment from the bank account of the customer. Settlement of transaction is informed to the customer through demat account.

9.11 SEBI - Securities and Exchange Board of India

SEBI has come into existence as a statutory body as on January 30, 1992 under the Securities and Exchange Board of India Act 1992. Its head office is in Mumbai. While regional officers are at Kolkata, Delhi and Chennai, SEBI is a statutory body regulating stock exchanges in India.

9.11.1 Objectives :

(1) To protect the interest of investors in securities.

(2) To encourage the development of securities market.

(3) To regulate the securities market.

9.11.2 Functions :

(1) **To Regulate the Business in Stock Exchange :** SEBI regulates the business in stock exchanges and the operations of the stock exchanges. It monitors whether the specified rules and guidelines are followed or not by share brokers, sub-brokers, merchant bankers. It keeps an effective control on the entire working of the stock exchanges.

(2) **Protection of the Interest of the Investors :** The fundamental function of the SEBI is to protect the interest of the investors. So, it enforces the intermediaries to obey the specified rules and regulations.

(3) **Registration and Regulation of Intermediaries :** It registers the intermediaries working in stock exchange like merchant banker, share broker, sub-broker, registrar of securities and monitors their functions. It makes planning for the training of intermediaries.

(4) **Registration and Regulation of Mutual Funds :** It registers and monitors mutual funds and regulates their working. For this, SEBI has determined rules and regulations which are followed by mutual funds.

(5) **To Prevent Fraudulent Trade :** It takes necessary steps to prohibit fraudulent trade in stock exchanges.

(6) **To Cancel Registration of Brokers :** It cancels the registration of share brokers who do not follow rules and guidelines determined by SEBI and failed to provide necessary information to SEBI.

(7) **To Regulate the Merger and Take Over of the Companies :** It regulates merger and take over of the companies for preserving the interest of investors. SEBI has issued guidelines so that merger and take over do not take place at the risk of small investors.

(8) **Guidelines with Reference to Public Issues :** It has issued different guidelines for both, first time capital issue by new company and capital issue by existing company coming in market for capital.

(9) **Self Regulation :** SEBI is active for the self regulation followed by intermediaries of stock exchange. It encourages the intermediaries to promote their professional unions.

(10) **Maintaining Stock Exchanges as an Efficient Market :** It maintains stability and efficiency of stock exchanges through regulations, restrictions and guidelines.

(11) **Inspection of Books :** If necessary, it inspects the books of securities issuer company, depository participant and beneficiary owner.

(12) **Monitoring and Inspection of Stock Exchange :** SEBI can monitor and inspect whether regulations laid down for stock exchange are followed or not, whether stock exchange organisation system and its working is followed as per SEBI Act or not. If necessary, it conducts inquiry, inspection and audit of the accounts of the intermediaries.

(13) **Guidelines :** SEBI has issued guidelines time to time for share broker, and sub broker, merchant banker, trustees of debenture, buy back securities by company etc.

(14) **To Obtain Annual and Periodical Reports :** It receives report in form of various statements for obtaining information about working and activities of stock exchanges.

(15) **Research Work :** SEBI undertakes the research work so that, all the above functions can be done effectively.

What did you learn in this chapter ?

Concept of Financial Market : Financial market is an important component of financial structure. Financial market includes mainly Capital market and Money market.

Money Market : Money market is a market of borrowing money and lending money for a short term. It is a market for securities having a maturity period of one year or less than it.

Characteristics : Two parts, maturity period, credit worthiness, physical location, convertible into cash, sub-branches, debt instruments, base of success.

Organised Money Market and Unorganised Money Market : Divided into two parts : (1) Organised money market and (2) Unorganised money market

(**1**) **Organised Money Market :** Regulated by Reserve Bank of India. Includes financial instruments like treasury bills, certificate of deposits, call money.

(**2**) **Unorganised Money Market :** No regulation of centralised institution as it is a informal, consists of landlord, shroffs.

Instruments of Money Market :

(**1**) **Treasury Bills :** It is short term government security. Issues at discount, posseses cash liquidity.

(**2**) **Commercial Paper :** It is short term document like promisory note. Issued by corporate body. Issued at discount.

(**3**) **Certificate of Deposits :** This is unsecured negotiable and short term financial instrument.

(**4**) **Commercial Bills :** It arises out of business transaction. It is drawn by seller of goods on the purchaser. Bank provides credit to its customer discounting the bill.

(**5**) **Call and Notice Money :** Call money is a transaction for one day. Call money means loan of one day. When money is borrowed or lend for 2 to 14 days, it is called Notice money.

Capital Market : It includes two markets : (1) Primary market and (2) Secondary market

Meaning of Capital Market : It is a source of long term capital fund for industrial enterprises. Capital market becomes helpful in the economic growth through mobilizing the savings of community.

Characteristics of Capital Market : (1) Long term market (2) Instruments are securities (3) Investment in securities (4) Regulation of SEBI (5) Transfer of ownership of securities (6) Provides liquidity (7) Two parts

Primary Capital Market : Primary market is called market of new securities. It is market for selling new securities in order to raise capital fund.

Characteristics : (1) Market for newly issued securities (2) Purchasing by investors and direct selling of securities (3) Intermediaries (4) Issues through prospectus.

Secondary Market (Stock Exchange) : Oldest and first stock exchange of India is Bombay Stock Exchange. It is a market for trading of listed securities.

Characteristics : (1) Registered corporate body (2) Approval of government (3) Organised market (4) Membership (5) Market of securities (6) Listing of securities (7) Management (8) Strict control over the members (9) Organisational structure (10) Regulation of stock exchange.

Functions : (1) Liquidity (2) Valuation of securities (3) Conversion of savings into capital (4) Intermediary in creation of capital (5) Safety in transactions (6) Growth of capital market (7) Facilities to perform activities (8) Necessary facility for speculation (9) Information provider (10) Listing of securities (11) Guidance to investors

Concept of Demat Account : Dematerialisation means conversion of physical securities into electronic data through computer.

Depository : It is a company registered under Companies Act. It has to obtain certificate of registration from SEBI.

Two Depositories in India : (1) NSDL and (2) CDSL.

National Securities Depository Limited-NSDL : Public company formed under the Companies Act. It was registered with SEBI in 1996. NSDL performs its function through the depository participant appointed by it. All services provided by NSDL are as provided by depository.

Central Depository Services (India) Limited-CDSL : Incorporated in 1999. It publishes time to time on its website the list of participants registered with it. The centralised system of CDSL and NSDL keeps an eye on every transaction. Provides all the services as provided by depository.

Depository Services : (1) Dematerialisation and rematerialisation (2) Easy transfer of securities at less expense (3) Prompt settlement of transaction (4) Record in customers account (5) Facility to mortgage (6) Facility to freeze or close account (7) Record and storage of information (8) Link between investor and clearing house (9) Services through internet

Trading Procedure of Securities : End of old traditional system of transaction on the floor by outcry. Online trading system in all the stock exchanges. Investors can buy and sell their securities online.

Procedure of Purchase and Sale : (1) To open demat account (2) Order to buy and sale (3) Execution of order (4) Contract note (5) Settlement of transaction (6) Payment of amount and delivery of security (7) Inform to customer of settlement of transaction

Objective of SEBI : (1) To protect the interest of investor (2) To encourage the development of securities market (3) To regulate the securities market

Functions : (1) To regulate the business in stock exchange (2) Protection of the interests of the investors (3) Registration and regulation of intermediaries (4) Registration and regulation of mutual funds (5) To prevent fraudulent trade (6) To cancle registration of brokers (7) To regulate the merger and take over of the companies (8) Guidelines with reference to public issues (9) Self regulation (10) Maintaining stock exchanges as an efficient market (11) Inspection of books (12) Monitoring and inspection of stock exchange (13) Guidelines (14) To obtain annual and periodical reports (15) Research work.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) Securities market having maturity period of one year or less than means .....

(A) Capital market. (B) Primary market. (C) Money market. (D) Secondary market.

(2) Who regulates organised money market ?

(A) SEBI (B) State Bank of India

(C) Reserve Bank of India (D) Financial Institutions

(3) Who issues treasury bills on behalf of Indian Government ?

(A) State Bank of India (B) Reserve Bank of India

(C) Central Bank of India (D) Financial Institutions

(4) Which statement is false with reference to commercial bills ?

(A) Government Security (B) Origin out of Business Transactions

(C) Discounted by Commercial Banks (D) Negotiable Instrument

(5) Market for sale of new issues securities means .....

(A) Stock exchange. (B) Primary market. (C) Secondary market (D) Speculation market

(6) Whose approval is to be obtained by stock exchange under securities contracts (Regulation) Act, 1956 ?

(A) Central Government (B) SEBI

(C) Reserve Bank of India (D) Finance Minister

(7) In which year Depository Act came into existence ?

(A) 1991 (B) 1992 (C) 1995 (D) 1996

(8) From whom certificate of registration is to be obtained by a depository before starting its operation ?

(A) Stock Exchange (B) Central Government

(C) SEBI (D) Reserve Bank of India

(9) How many types of orders are there in purchase-sales of securities ?

(A) Two (B) Three (C) Four (D) Five

(10) Under which Act, SEBI came into existence ?

(A) Companies Act (B) Securities Contracts (Regulation) Act

(C) National Companies Act

(D) Securities and Exchange Board of India Act (SEBI Act)

2. Answer the following questions in one sentence each :

(1) What is the time period for the maturity of instruments of money market ?

(2) At what price treasury bills are issued ?

(3) Which financial instruments are traded in money market ?

(4) When was Bombay Stock Exchange established ?

(5) By whom are stock exchanges regulated in India ?

(6) By whom are depository services availed ?

(7) When did Depository Act come into force ?

(8) When did NSDL establish and start its operation ?

(9) Which is the first depository of India ?

(10) By which name screen based trading of National Stock Exchange and Bombay Stock Exchange are known ?

(11) What is meant by Contract note in the purchase-sales procedure of securities ?

3. Answer the following questions in short :

(1) What is unorganised money market ?

(2) What are the instruments of money market ?

(3) Which instrument of money market are negotiable ?

(4) What is the main difference between call money and notice money ?

(5) How does stock exchange provide liquidity element to securities ?

(6) Stock exchange is a mirror indicating economic condition of the country – How ?

(7) What is dematerialisation ?

4. Answer the following questions in brief :

(1) What is treasury bill ?

(2) Give the meaning of capital market and clarify its characteristics.

(3) "Primary market means a market of new issued securities" – Explain and state the characteristics of primary market.

5. Answer the following questions in detail :

(1) What is money market ? State its characteristics.

(2) What are the characteristics of stock exchange ?

(3) What are the functions of stock exchange ?

(4) Write a Note :

(a) National Securities Depository Limited (b) Central Depository Services Limited

(c) SEBI

(5) Explain the purchase-sale procedure of securities in stock exchange.

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10 MARKETING MANAGEMENT

What will you study in this chapter ?

Introduction

Consumer is the king of market in modern age. Every firm or an organization continuously strives towards fulfilling the needs of the consumers and satisfying them. Industrial revolution resulted in a speedy growth of production and the basic and primary needs of consumers are being fulfilled. Consequently producers have started placing new and differentiated products in the market resulting in competition among producers. Technological revolution has helped in placing differentiated products in the market. In this way the firms are striving continuously through innovations to fulfill the requirements of goods and services.

10.1 Marketing Process

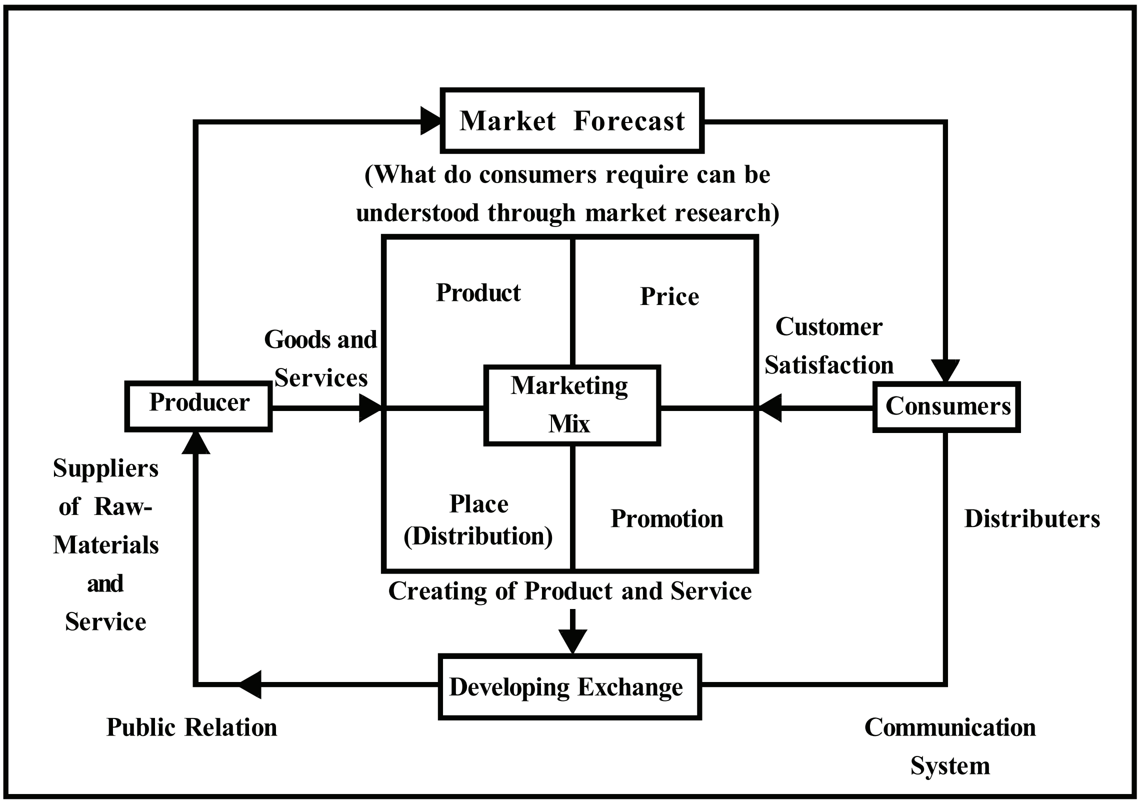
In the marketing process efforts are being made to work more efficiently, innovatively and effectively. Consumable goods and services are produced and made available to the consumers wherever he needs it. As the life style and his approach to life changes, the needs of man also changes. With this change, it becomes important for the market process to fulfill the requirements of consumers.

10.1.1 Meaning : The firms produce goods and services keeping in mind future needs of the consumers. Marketing process is one in which balance is made between the needs of the consumers and the product mix. On the basis of consumer's preferences, the nature of the product is decided and according to the purchasing power of the consumers the price is decided. Exchange is developed between two parties-buyers and sellers in the marketing process. Through exchange the producers fulfill their business objectives and buyers satisfy their needs.

Definition :

● The American Marketing Association define 'Marketing as a business activity, in which his products or services are diverted from the producer to the consumer.'

Diagram for Market Process



● According to Kapoor and Lacobucci, 'Marketing is a mutual exchange between consumers and firms.'

● "Marketing is a total system of business activities which are designed to plan a product, to determine its price and to distribute goods which can satisfy wants of the consumers and reach the target as well as objectives of organisations."

● Prof. Philip Kotler stated that, 'Marketing is a social process, in which private groups based on their requirement, produce valuable products and independently exchange goods and services.'

10.1.2 Functions of Marketing Process :

(1) Market Research (2) Collection of Materials (3) Transformation of raw materials into consumable products (4) Standardisation and gradation of product (5) Labelling of product (6) Price determination

(7) Packing of product (8) Storage of products (9) Transportation facilities (10) Insurance of the products (11) Financial arrangement (!2) Advertisement (13) Arrangement of sales and distribution (14) Selling (15) After sales services

(1) **Marketing Research :** The first and initial work in marketing is market research. In simple words it can be said that it is a process of collecting information regarding consumers taste and preferences. In large scale production, risk is higher in the present days. It is essential to have knowledge regarding consumer's preference. Whether the product will be accepted or not by consumers. On this basis, future forecast can be done. We get information regarding demand, price, competition etc. For this there are number of methods to collect data e.g. questionnaire method, observation method etc.

(2) **Collection of Product :** In many cases products are manufactured at different place and they need to be collected centrally which is known as collection of products. Producers are scattered. Some products are seasonally produced, some products are produced on a small scale and some products need further processing and for all these reasons product collection is required.

(3) **Transformation of Raw Material into Consumable Products :** In many products it becomes necessary for further processing to make it consumable. These process are executed at the place where raw material is stored. By making product consumable its market value enhances. Care should be taken to see whether the processing is done according to the consumer's requirement. For e.g. cleaning of cereals, pulses and ripening of fruits, etc.

(4) **Standardisation and Gradation :** Product standardisation is a process in which it is determined that how goods should be. The quality of the product standards regarding size, colour, smell, taste, nutrients etc. are there. Many products requires government standardization too. Standardization procedure is done alongwith gradation. In gradation different quality products are classified differently. Through that different prices are fixed for different quality products. Appropriate price can be charged from the consumers. Due to product standardization and gradation, consumers develop faith on the quality of the product. The gradation of agricultural products is done in India by Market Department of Government and the Bureau of Indian Standard does it for Industrial products.

(5) **Labelling of the Products :** A label differentiates the product of one producer from that of other competitors. Label is a unique identity of that product. Consumer indentifies the product only through that label. Consumers are not cheated by fake products because of a label. Advertisement become easy because of the labeled product. Labelling ensure the product quality. Often, producer gives a name for the product which is known as brand. Brand can be in the form of name, symbol, number, producers name or a design. Brand name is kept on label of product.

(6) **Price Determination :** A producer obtains various estimation of expenses regarding his production of goods which includes production cost, product packing, insurance, distribution, advertisement etc. To this basic cost, profit component is added to determine the sale price. While determining the price, demand for the product and price of the competitor's product also is considered. Price determination should be done before packing because it is mandatory to print the price of the product on the pack.

(7) **Packing the Product :** Packing provides protection to the product as well as attract consumers towards product. The direction for use of the product is also sometimes written on a packing. Packing can be also called as a garment for the product. Packing makes the use of product easier. Products can be easily transferred from one place to another place due to packing. Packing helps to preserve product quality and its features. Consumers become aware of the price from the packing itself. Different materials are used for packing different products e.g., paper, plastic jars, tinned boxes, glass jar, etc.

(8) **Storage of Products :** It is essential to place products in the market on the basis of the demand for the product. It become necessary to build a balance between demand and supply of goods. Production is done on the basis of future demand. This results in the need for storing. While storing, it becomes necessary to maintain the quality of the product. Storage makes movement of product easier and helps in availability of products in the market.

(9) **Transport Service :** Different types of transport services are used to ensure constant supply of raw materials and to enable finished product to reach the consumer. The movement of products take place through road ways, railways, waterways and airways. For e.g. car manufacturing company transport cars in containers.

(10) **Take Insurance of the Product :** In present time, number of risks arise while storing and transporting the product like, theft, fire, decoit, loss due to riots, sinking of product in water etc. Producers and distributors insure against such risks. Modern producers and distributors take different types of insurance like fire insurance, property insurance, accident insurance, marine insurance, riot insurane etc.

(11) **Financial Arrangement :** For all activities of marketing management, working capital has to be arranged. To satisfy these requirements well planned financial arrangement is required. A financial manager has to take decisions on how much finance is required ? For which marketing activity ? And when is it required ? For certain seasonal product, advertisements are required in particular season only and so financial arrangement can be done well in advance. Marketing manager's main duties are to create financial availability at the right time and organize advertisement compaigns, distribution channels, branding of the product and market research etc. and to synchronize all these activities.

(12) **Advertisement :** Advertisement strategy is based on the expected demand and availability of finance. The process and functioning of marketing depends on the type of product, strategy of advertisement of competitors and the extent of effectiveness of media. Advertisement contributes towards creating demand for product. This is the reason why after advertising, the demand for such products and services increase. In most cases, local advertisement campaign proves to be more effective.

(13) **Sales and Distribution System :** It is essential that products must reach to the consumers from the producer's place speedily and economically. For which appointment of distributors is necessary. In most cases producers arrange this through a centralized agency (for an entire district or a state) and reduces the burden of the sales. According to the type of product the system of sales and distribution is created. If demand for products is very high and continuous in nature, then all the methods are adopted simultaneously. In the distributionship, it is necessary that the products must reach to the wholesalers and retailers on time. In some cases producers are selling the product at the place of production.

(14) **Selling :** Selling refers to a process of exchange in marketing management in which the product is handed over to the consumer in exchange for money. The role of middlemen is very important in selling function. More aggressive distributor can generate more sales. Very often, the producer directly sells the product to the consumer. Personal selling is the most effective form of selling.

(15) **After Sales Services :** Marketing does not end with the selling of the product but it includes to get a permanent and happy consumers, listen complaints from consumers, replacement of defective product and service and repair product. For certain products, demonstration is to be done at the residence of consumers. For products like air conditioners, television, grinder, refrigerators; technical knowledge is essential and arrangement for after sales services is to be done for which a network should be created.