11. Financial Market

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. A financial market is a market in which people trade .... and derivatives at low transaction costs.

a) Gold
b) Financial securities
c) Commodities

2. When the trade bills are accepted by commercial banks it is known as ....

a) Treasury bills
b) Commercial bills
c) Commercial papers

3. Money market is a market for lending and borrowing of funds for .... term.

a) short
b) medium
c) long

4. Central Government is a borrower in the money market through the issue of ....

a) Commercial Papers
b) Trade Bills
c) Treasury Bills

5. .... is the market for borrowing and lending long term capital required by business enterprises.

a) Money Market
b) Capital Market
c) Gold Market

B) Match the pairs.

Group 'A'	**Group 'B'**
a) Financial market	1) Long term fund
b) Money market	2) New issue market
c) Primary market	3) Trading of commodities
d) Commercial paper	4) Short term fund

	5) Trading of financial securities
	6) Share market
	7) Unsecured promissory note
	8) Secured promissory note

Ans:

Group 'A'	Ans.
a) Financial market	**5) Trading of Financial securities**
b) Money market	**4) short term fund**
c) Primary market	**2) New Issue Market**
d) Commercial paper	**7) Unsecured promissory note**

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. A market where people trade financial securities and derivatives at low transaction cost.
Ans: Financial Market

2. A market which provide long term funds.
Ans: Capital Market

3. A market which provide short term funds.
Ans: Money Market

4. A money market instrument used by bank when one bank faces temporary shortage of cash.
Ans: Call money/ Notice money

5. A bill which is issued by Reserve Bank of India on behalf of the Government of India.
Ans: Treasury Bill

6. A market which exclusively deals with the new issue of securities.
Ans: Primary market/ New issue market

D) State whether the following statements are true or false.

1. A Financial Market is a market in which people trade financial securities and

derivatives at high transaction costs.
Ans: False

2. Money market is the market for the long term funds.
Ans: False

3. Capital market is the market for the long term funds.
Ans: True

4. Primary market is also known as new issue market.
Ans: True

5. Secondary market is commonly known as stock market.
Ans: True

6. Commercial paper is a secured promissory note.
Ans: False

7. Treasury bills are issued by commercial banks.
Ans: False

E) Find the odd one.

1. Treasury Bills, Shares, Certificate of Deposit.
Ans: Shares

2. FPO, Private Placement, Commercial paper.
Ans: Commercial paper

3. New Issues Market, Call Money Market, Secondary Market.
Ans: Call Money Market

F) Complete the sentences.

1. Funds borrowed and lent in money market are for **Short** term.
2. When trade bills are accepted by commercial banks, it is known as **Commercial Bills**
3. Unsecured negotiable promissory notes issued by a commercial bank is called as **Certificate of Depository**.
4. New shares, debentures, etc. are traded in **Primary/New Issues** market.

5. In capital market the instruments traded have maturity period of more than <u>one</u> year.

G) Select the correct option from the bracket.

Group 'A'	Group 'B'
a) Money Market	1)
b) Zero risk instrument	2)
c)	3) Capital market
d)	4) Secondary market

(Buying and selling of existing securities, Treasury Bills, Funds for long term, Fund for short term)

Ans:

Group 'A'	Group 'B'
a) Money Market	1) **Funds for short term**
b) Zero risk instrument	2) **Treasury Bill**
c) **Funds for long term**	3) Capital market
d) **Buying and selling of existing securities**	4) Secondary market

H) Answer in one sentence.

(1) What is financial market?

Ans. A financial market is a market in which peoples trade financial securities and derivatives at low transaction costs.

(2) What is call money market ?

Ans. In call money market, funds are lent or borrowed for very short periods i.e. One day.

(3) What is Certificate of Deposits ?

Ans. Certificate of Deposits are, unsecured negotiable promissory notes usually issued by Commercial Banks and Financial Institutions.

(4) What is Trade Bill ?

Ans. Trade Bills are negotiable instruments or bills drawn by a seller on the buyer for value of goods sold under credit sales.

(5) What is new issue market ?

Ans. Companies sell their Shares, Debentures, etc for the first time to raise fresh capital in a new issue market.

I) Correct the underlined word/s and rewrite the following sentences.

(1) In <u>Primary</u> market, already existing securities are traded.

Ans. In **<u>Secondary</u>** market, already existing securities are traded.

(2) Companies sell fresh shares for the first time to the public in <u>Secondary</u> <u>Market</u>.

Ans. Companies sell fresh shares for the first time to the public in **<u>Primary Market</u>.**

(3) In <u>Money</u> market, the instruments traded have maturity period of more than one year.

Ans. In <u>Capital</u> market, the instruments traded have maturity period of more than one year.

(4) Financial market can be classified as capital market and <u>call money</u> market.

Ans. Financial market can be classified as capital market and **<u>money</u>** market.

Q.2. Explain the following terms/concepts:

(1) Financial market

Ans. (1) A financial market is a market place where trading or exchange of various financial instruments and assets takes place. The price of these assets is depend on its demand and supply in the respective market.

(2) Financial market acts as an intermediary between investors and borrowers. It represents a financial asset to one party and a financial liability to another party.

(2) Capital market

Ans. (1) Capital market is a market for long term debt and equity shares. In this market, the capital funds comprising of both equity and debt are issued and traded.

(2) It is the market for borrowing and lending long term capital required by business enterprises. The important division in the capital market is made on the basis of the nature of security traded, i.e. stock market and bond market.

(3) Money market

Ans. (1) Money market is a market for short term loan or financial assets. It meets the short-term requirements of borrowers and provides liquidity or cash to lenders.

(2) It is an important part of the financial system that helps in fulfilling the short term and very short term requirements of the companies, banks, financial institution, government agencies and so forth.

(4) Call money market

Ans. (1) Call money market is a short-term money market which allows for large financial institutions, such as banks, mutual funds, and corporations, to borrow and lend money.

(2) The call money market is an essential part of the Indian Money Market, where the day to-day surplus funds (mostly of banks) are traded.

(5) Treasury bills

Ans : (1) Treasury bills are short-term securities issued by RBI on behalf of Government of India. They are the main instruments of short term borrowing by the Government. They are useful in managing short-term liquidity.

(2) At present, the Government of India issues three types of treasury bills through auctions, namely 91 days, 182 - days and 364 - days treasury bills. There are no treasury bills issued by state governments.

(6) Commercial bills

Ans. (1) Commercial bill is a short-term, negotiable, and self-liquidating instrument with low risk. They are negotiable instruments drawn by a seller on the buyer for the value of goods delivered by him.

(2) When trade bills are accepted by commercial banks, they are called commercial bills.

(7) Repurchase agreement

Ans. (1) Repurchase agreement is also known as Repo. A repo or reverse repo is a transaction in which two parties agree to sell and repurchase the same security.

(2) Under repo, the seller gets immediate funds by selling specified securities with an agreement to repurchase the same at a mutually decided future date and price.

(8) Primary market

Ans. (1) Primary Market is a form of the capital market wherein new securities are sold by the companies for the very first time to the investors, to raise funds. Hence, this market is also known as New Issues Market.

(2) The process of selling the new securities, in the primary market is called underwriting, which is performed by a group called as underwriters or security dealers.

(9) Secondary market

Ans. (1) Secondary market is more commonly known as the stock market or the stock exchange. The secondary market is a place where trading of existing securities takes place.

(2) In other words, securities which are previously issued in the primary market are traded here. Here, the securities are bought and sold by the investors.

Q.3 Study the following case/situation and express your opinion.

(1) Joy Ltd. Company is a newly incorporated company. It wants to raise capital for the first time by issuing equity shares.

Questions :
(a) Should it go to primary market or secondary market to issue its shares?

Ans. Joy Ltd. Company wants to raise capital for the first time by issuing equity shares. Therefore, it should go to primary market wherein new securities are sold by the companies for the very first time to the investors, to raise funds.

(b) Should it offer its shares through public offer or rights issue?

Ans. It should offer its shares through public offer. This is because, Joy Ltd is a newly incorporated company and want to raise capital. So, in that case public offer is best suited.

(c) What will be the issue of equity shares by Joy Ltd. Co. called as, IPO or FPO?

Ans. The issue of equity shares by Joy Ltd. Co. is called as IPO. Initial Public Offer or IPO, as the name suggests, is the fresh issue of equity shares to the general public by an unlisted company for the very first time.

(2) Mr.X is the CFO (Chief Financial Officer) of PQR Co. Ltd. which is a reputed company in the field of construction business. Often Mr. X has to decide on investing surplus funds of the company for short durations. And at times, he also has to decide the sources from where he can raise funds for short durations.

Questions:
(a) Assume on behalf of the company Mr.X has Rs. 5 lakhs and wants to invest for a short period, Should he buy Equity shares or Certificate of Deposit?

Ans. Mr. X should buy Certificate of Deposit. This is because, Mr. X wants to invest for a short period, for this Certificate of Deposit is best suited. Whereas, Equity Shares is best suited for long term investment.

(b) The company has surplus funds and wants to invest it. However, he needs the money back in 4 months, so should he invest in Treasury Bills or Government Securities?

Ans. If he needs the money back in 4 months, he should invest in Treasury Bills. At present, the Government of India issues three types of treasury bills through auctions, namely - 91 days, 182 - days and 364 - days treasury bills.

(c) Can the company issue Certificate of Deposit?

Ans. No, the company cannot issue Certificate of Deposit. This is because, Certificate of Deposit can only be issued by Commercial Bank and Financial Institutions.

Q. 4 Distinguish between the following.

1) Primary Market and Secondary Market

Primary Market	Secondary Market
1) Meaning : The issue of new shares by the company is done in the primary market.	The securities issued earlier are traded in the secondary market.
2) Mode of Investment: Direct investment in the securities. Securities are acquired directly from the company.	Indirect investment as the securities are acquired from other stakeholders.
3) Parties in action: The parties dealing in this market are company and investors.	The parties dealing in this market are only investors.
4) Intermediary: The underwriters are the intermediaries.	The security brokers are the intermediaries.
5) Value of security: The price of security in the primary market is fixed as it is decided by the company.	The price of security is fluctuating, depending on the demand and supply conditions in the market.

2) Money Market and Capital Market

Money Market	Capital Market
1) Meaning: It is a component of the financial market where short-term borrowing takes place	It is a component of financial market where long-term borrowings takes place.
2) Time period: In money market, the instruments traded have maturity period of one year or less than one year.	In capital market, the instruments traded have maturity period of more than one year.
3) Instruments: Certificate of deposits, Repurchase agreements, Commercial paper, Treasury bills, etc. are the instruments traded in the money market.	Stocks, Shares, Debentures, Bonds, Securities of the government are the instrument of capital market.
4) Purpose of borrowing: Funds are borrowed to meet working capital requirements or for small investments.	Long term funds are required to establish new business, expand or diversify business or purchase of fixed assets.
5) Institutions: Participants in the market are Central banks, Commercial banks, Acceptance houses, Non-bank financial institution, Bill brokers, etc.	Stock exchanges, Commercial banks and Non-bank institutions, financial intermediaries, etc. are the participants in the market.
6) Risk: In the money market, risk factor is very less because maturity	In capital market, the risk is more as compared to in the money market. The

period of the instruments is less than one year.	reason behind this is the instruments have long maturity period.
7) Return on Investment: Return on investment in money market is less as they are highly liquid and safe.	Return on investment in capital market is comparatively high as they are more risky.
8) Role in Economy: This market increases liquidity of funds in the economy.	This market helps in mobilization of savings in the economy.

Q.5 Answer in brief.

1. State any four functions of financial market.

Ans: FUNCTIONS OF FINANCIAL MARKET ARE AS FOLLOWS:

1. Transfer of Resources : Financial Market facilitate the transfer of real economic resources from lenders to ultimate users.

2. Productive usage : Financial Market allows productive use of the funds. In the hands of the investors their excess funds would have remained idle. Borrowers use these Funds for productive purposes.

3. Enhancing Income : Financial Market allows lenders to earn interest or dividend on their surplus funds, thus leading to the enhancement of the individual and the national income.

4. Capital Formation : Financial Market provides a channel through which savings flow to industrial and commercial organisations in the form of capital. This leads to capital formation.

5. Price determination : The financial instruments traded in a financial market get their prices from the mechanism of demand and supply. The investors are the suppliers of the funds and the corporates are the users. The interaction between the two and other market factors will help to determine the prices.

6. Sale Mechanism : Financial Market provides a mechanism for selling of a financial asset by an investor so as to offer the benefit of marketability and liquidity of such assets.

7. Mobilizing Funds : Idle funds in the hands of the investors can be productively used by corporates. Investors that have savings must be linked with corporates that require investment. So financial market enables the investors to invest their saving according to their choices and risk assessment. This will utilize idle funds and the economy will boom.

8. Liquidity : Financial market provides a mechanism for liquidating the financial instruments. This means at any given time, the investor can sell their financial instruments and convert them into cash. This is an important factor for investors who do not want to invest for a long period.

9. Easy access : Both investors and industries need each other. The financial market provides a platform where both the buyers and sellers can find each other easily.

10. Industrial development : Financial market helps in transforming savings into capital. Corporates use the funds of investors to undertake productive or commercial activities thereby leading to economic development.

(Write any four functions of financial market)

2. State any four features of money market.

Ans: Features of Money Market :

1) The funds borrowed and lent in money market are for short term. The maximum period for which the funds are traded in the market is one year.

2) It is a wholesale market for short term debt as the transaction volume is large.

3) Trading may take place over the telephone, after which written confirmation is done by way of e-mails.

4) Participants of money market include RBI, commercial banks, mutual funds, financial institutions, primary dealers and corporates.

5) There is an impersonal relationship between the participants of the money market.

6) Money market has no geographical area i.e. there is no fixed place for carrying out transactions.

7) The instruments of money market can be converted easily into cash or have very short maturity periods. Moreover, the returns on investment is also low.

8) Major segments of money market are:

a) Call money market

b) Certificate of Deposits market

c) Treasury Bill market

d) Commercial Bill market

e) Commercial papers market

3. State any four features of capital market

Ans: Features of Capital Market : Following are the main features of the capital market:

1) Link between investors and borrowers : The capital market links investors with the borrowers of funds. It routes money from savers to entrepreneurial borrowers.

2) Deals in medium and Long-term investment : Capital market is a market where medium and long term financial instruments are traded. Through this market, corporates, industrial organizations, financial institutions access long-term funds from both domestic and foreign markets.

3) Presence of Intermediaries : Capital market operates with the help of intermediaries like brokers, underwriters, merchant bankers, collection bankers etc. These intermediaries are important elements of a capital market.

4) Promotes capital formation : Capital market provides a platform for investors and borrowers of long term funds to trade. This leads to capital formation in an economy as it mobilizes funds. Capital formation is the net addition to the existing stock of an economy's capital.

5) Regulated by government rules, regulations and policies : Capital market operates freely. However, it is regulated by government rules, regulations and policies. e.g. SEBI is the regulator of Capital markets.

6) Deals in marketable and non-marketable securities : Capital market trades in both marketable and non-marketable securities. Marketable securities are securities that can be transferred. e.g. Shares, Debentures etc. and non-marketable securities are those which cannot be transferred. e.g. Term Deposits, Loans and Advances.

7) Variety of Investors : Capital market has a wide variety of investors. It comprises both individuals like general public and institutional investors like Mutual Funds, Insurance companies, Financial Institutions, etc.

8) Risk: Risk is very high here as the instruments have long maturity periods. However, the return on investments is very high.

(Write any four features of financial market)

4. Explain any 4 types of money market instruments.

Ans: Instruments of Money Market : In the money market, only those financial instruments are traded which are immediate substitute for money. Some of these instruments are **explained as follows:**
(Write any four)

1) Call money and Notice money : Call money and Notice money market is an important segment of the money market in India. Under Call money, funds are lent or borrowed for very short periods i.e. one day. Under Notice money, funds are lent or borrowed for periods between 2 days to 14 days. Funds have to be repaid within a specified time on the receipt of notice given by the lender. When one bank faces temporary shortage of cash, then another bank with surplus cash lends money to it. Hence Call/ Notice money market is also called as interbank Call money market.

2) Treasury Bills (T-Bills): Treasury Bills are short term securities issued by Reserve Bank of India on behalf of the Central Government of India to meet the government's short term funds requirement. Treasury Bills have three maturity periods - 91 days, 182 days and 364 days. These bills are sold to banks and individuals, firms, institutions, etc. These bills are negotiable instruments and are freely transferable. The minimum value of T-bills is 25,000 or in multiples of 25000. These are issued at a discount and repaid at par and hence they are also called Zero Coupon Bonds.

3) Trade Bills/ Commercial Bills: Bill of Exchange also called as Trade bills are negotiable instruments or bills drawn by a seller on the buyer for value of goods sold under credit sales. These have short-term maturity period generally of 90 days and can be easily transferred. If the seller wants immediate cash, he can discount the trade bills with Commercial banks i.e. sell it to banks for cash. When the trade bills are accepted by Commercial banks it is known as Commercial Bills. Banks can rediscount the bills any number of times till the maturity of the bill.

4) Commercial Papers (CPs): Commercial Paper is an unsecured promissory note issued by highly rated companies, All India Financial Institutions, like SIDBI, Exim Bank etc, and Primary Dealers with a fixed maturity period which varies from 7 days to maximum 1 year. The minimum value of CP is 5 lakhs or in multiples of ₹ 5 lakhs. It is issued at a discount to the face value and are highly liquid as it gives better returns than normal bank deposits. Individuals, Banks, Mutual funds, Companies, etc. invest in Commercial Papers.

5) Certificate of Deposits (CDs): These are unsecured negotiable promissory notes usually issued by Commercial Banks and Financial Institutions. It is a receipt of funds deposited in a bank for a fixed period at a specified rate of interest. It can be issued for a minimum value of ₹ 1 lakh or in multiples of ₹1 lakh. They can be issued at a discount to the face value. They have a maturity period of minimum 7 days and maximum 1 year. (Maximum maturity may be 3 years, if the CDs are issued by Financial Institutions.) CDs can be bought by individuals, companies, etc.

6) Government Securities : The marketable debts issued by the government or by semi government bodies which represent claims on the government is known as government securities. These securities are issued by agencies such as Central Government, State Government, local self-government e.g. Municipalities etc. These securities are safe investment as payment of interest and repayment of principal amount are guaranteed by the government.

7) Repo or Repurchase Agreement : Repo is an agreement where the seller of a security, (ie. one who needs money) agrees to buy it back from the lender at a higher price on a future date. Usually this agreement is made between RBI and commercial banks. Repo rate is the rate at which banks borrow from RBI and Reverse repo rate is the rate at which RBI borrows from banks. RBI uses the repurchase agreement to control the money supply in the economy. These agreements are the most liquid of all money market investments having maturity ranging from 24 hours to several months.

8) Money Market Mutual Funds (MMMFS): A Mutual Fund which invests in Money market instruments like Call Money, Repos, T-bills, CDs, etc. is called as MMMFs. This type of Mutual Fund invest in debt instruments which mature in less than 1 year and have low risk. Individuals and corporates are allowed to invest in MMMFs.

Q.6. Justify the following statements

(1) Financial markets acts as link between investor and borrower.

Ans. Justification:

(1) A financial market is a market place where trading or exchange of various financial instruments and assets take place. The price of these assets depend on its demand and supply in the respective market.

(2) Financial Market acts as a link between one who invests money or lends money and other one who borrows or uses money.

(3) Hence, financial markets connect the investors to the borrowers and bridge the gap between the two for mutual benefits.

(4) Thus, it is rightly justified that, financial markets acts as link between investor and borrower.

(2) Money market makes available short term finance through different instruments.

Ans. Justification:

(1) Money market is a market for short-term loan or financial assets. It meets the short-term requirements of borrowers and provides liquidity or cash to lenders.

(2) In the money market, only those financial instruments are traded which are immediate substitute for money. Some of these instruments are:

- Call money and Notice money
- Treasury Bills (T - Bills)
- Trade Bills / Commercial Bills
- Commercial Papers (CPs)
- Certificate of Deposits (CDs)
- Government Securities
- Repo or Repurchase Agreement
- Money Market Mutual Funds (MMFS)

(3) Financial instruments traded in money market helps in fulfilling the short term and very short term requirements of the companies, banks, financial institution, government agencies and so forth.

(4) Thus, it is rightly justified that, money market makes available short term finance through different instruments.

(3) Capital market is useful for corporate sector.

Ans. Justification:

(1) Private Sector Companies or Corporates issue Commercial Papers (CPs) and corporate debentures.

(2) Commercial Papers (CPs) are short-term, negotiable, discounted debt instruments. They are issued in the form of unsecured promissory notes.

(3) Corporate debentures are coupon bearing, medium to long term instruments which are issued by corporations when they want to access loans to finance projects and working capital requirements

(4) Thus, it is rightly justified that capital market is useful for corporate sector.

(4) There are many participants in money market.

Ans. Justification: Some of the participants in money market are as follows:

1) Reserve Bank of India : It is the most important participant in the money market. Through the money market, RBI regulates money supply and implements its monetory policy. It issues government securities on behalf of the government and also underwrites them. It acts as an intermediary and regulator of the market.

2) Central and State Government : Central Government is a borrower in the Money Market, through the issue of Treasury Bills (T-Bills). The T-Bills are issued through the Reserve Bank of India (RBI). The T-Bills represent zero risk instruments. Due to its risk free nature banks, corporates, etc. buy the T-Bills and lend to the government as a part of its short-term borrowing programme. The state governments issue bonds called as State Development Loans.

3) Public Sector Undertakings (PSU): Many listed government companies can issue commercial paper in order to obtain its working capital.

4) Scheduled Commercial Banks : Scheduled commercial banks are very big borrowers and lenders in the money market. They borrow and lend in call money market, short notice market, Repo and Reverse Repo market.

5) Insurance Companies : Both the general and life insurance companies are usual lenders in the money market. They invest more in capital market instruments. Their role in the money market is limited.

6) Mutual Funds: Mutual Funds offer varieties of schemes for the different investment objectives of the public. Mutual funds schemes are liquid schemes. These schemes have the investment objective of investing in money market instruments.

7) Non Banking Finance Companies (NBFCs) : NBFCs use their surplus Funds to invest in government securities, bonds etc. (Example of NBFC - Unit Trust of India)

8) Corporates : Corporates borrow by issuing commercial papers which are nothing but short-term promissory Notes. They are the lender to the banks when they buy the certificate of deposit issued by the banks.

9) Primary Dealers : Their main role is to promote transactions in government securities. They buy as well as underwrite the government securities. Thus, it is rightly justified that, there are many participants in money market.

Q. 7 Answer the following questions.

1. Explain the functions of financial market.

Ans: FUNCTIONS OF FINANCIAL MARKET ARE AS FOLLOWS:

1. Transfer of Resources : Financial Market facilitate the transfer of real economic resources from lenders to ultimate users.

2. Productive usage : Financial Market allows productive use of the funds. In the hands of the investors their excess funds would have remained idle. Borrowers use these Funds for productive purposes.

3. Enhancing Income : Financial Market allows lenders to earn interest or dividend on their surplus funds, thus leading to the enhancement of the individual and the national income.

4. Capital Formation : Financial Market provides a channel through which savings flow to industrial and commercial organisations in the form of capital. This leads to capital formation.

5. Price determination : The financial instruments traded in a financial market get their prices from the mechanism of demand and supply. The investors are the suppliers of the funds and the corporates are the users. The interaction between the two and other market factors will help to determine the prices.

6. Sale Mechanism : Financial Market provides a mechanism for selling of a financial asset by an investor so as to offer the benefit of marketability and liquidity of such assets.

7. Mobilizing Funds : Idle funds in the hands of the investors can be productively used by corporates. Investors that have savings must be linked with corporates that require investment. So financial market enables the investors to invest their saving according to their choices and risk assessment. This will utilize idle funds and the economy will boom.

8. Liquidity : Financial market provides a mechanism for liquidating the financial instruments. This means at any given time, the investor can sell their financial instruments and convert them into cash. This is an important factor for investors who do not want to invest for a long period.

9. Easy access : Both investors and industries need each other. The financial market provides a platform where both the buyers and sellers can find each other easily.

10. Industrial development : Financial market helps in transforming savings into capital. Corporates use the funds of investors to undertake productive or commercial activities thereby leading to economic development.

2. State the instruments in money market?

Ans: Instruments of Money Market : In the money market, only those financial instruments are traded which are immediate substitute for money.

Some of these instruments are explained as follows:

1) Call money and Notice money : Call money and Notice money market is an important segment of the money market in India. Under Call money, funds are lent or borrowed for very short periods i.e. one day. Under Notice money, funds are lent or borrowed for periods between 2 days to 14 days. Funds have to be repaid within a specified time on the receipt of notice given by the lender. When one bank faces temporary shortage of cash, then another bank with surplus cash lends money to it.

Hence Call/ Notice money market is also called as interbank Call money market.

2) Treasury Bills (T-Bills): Treasury Bills are short term securities issued by Reserve Bank of India on behalf of the Central Government of India to meet the government's short term funds requirement. Treasury Bills have three maturity periods - 91 days, 182 days and 364 days. These bills are sold to banks and individuals, firms, institutions, etc. These bills are negotiable instruments and are freely transferable. The minimum value of T-bills is 25,000 or in multiples of 25000. These are issued at a discount and repaid at par and hence they are also called Zero Coupon Bonds.

3) Trade Bills/ Commercial Bills: Bill of Exchange also called as Trade bills are negotiable instruments or bills drawn by a seller on the buyer for value of goods sold under credit sales. These have short-term maturity period generally of 90 days and can be easily transferred. If the seller wants immediate cash, he can discount the trade bills with Commercial banks i.e. sell it to banks for cash. When the trade bills are accepted by Commercial banks it is known as Commercial Bills. Banks can rediscount the bills any number of times till the maturity of the bill.

4) Commercial Papers (CPs): Commercial Paper is an unsecured promissory note issued by highly rated companies, All India Financial Institutions, like SIDBI, Exim Bank etc, and Primary Dealers with a fixed maturity period which varies from 7 days to maximum 1 year. The minimum value of CP is 5 lakhs or in multiples of ₹ 5 lakhs. It is issued at a discount to the face value and are highly liquid as it gives better returns than normal bank deposits. Individuals, Banks, Mutual funds, Companies, etc. invest in Commercial Papers.

5) Certificate of Deposits (CDs): These are unsecured negotiable promissory notes usually issued by Commercial Banks and Financial Institutions. It is a receipt of funds deposited in a bank for a fixed period at a specified rate of interest. It can be issued for a minimum value of ₹ 1 lakh or in multiples of ₹1 lakh. They can be issued at a discount to the face value. They have a maturity period of minimum 7 days and maximum 1 year. (Maximum maturity may be 3 years, if the CDs are issued by Financial Institutions.) CDs can be bought by individuals, companies, etc.

6) Government Securities : The marketable debts issued by the government or by semi government bodies which represent claims on the government is known as government securities. These securities are issued by agencies such as Central Government, State Government, local self-government e.g. Municipalities etc. These securities are safe investment as payment of interest and repayment of principal amount are guaranteed by the government.

7) Repo or Repurchase Agreement : Repo is an agreement where the seller of a security, (ie. one who needs money) agrees to buy it back from the lender at a higher price on a future date. Usually this agreement is made between RBI and commercial banks. Repo rate is the rate at which banks borrow from RBI and Reverse repo rate is the rate at which RBI borrows from banks. RBI uses the repurchase agreement to control the money supply in the economy. These agreements are the most liquid of all money market investments having maturity ranging from 24 hours to several months.

8) Money Market Mutual Funds (MMMFS): A Mutual Fund which invests in Money market instruments like Call Money, Repos, T-bills, CDs, etc. is called as MMMFs. This type of Mutual Fund invest in debt instruments which mature in less than 1 year and have low risk. Individuals and corporates are allowed to invest in MMMFs.

3. State the features of capital market.

Ans: Features of Capital Market :
Following are the main features of the capital market:

1) Link between investors and borrowers : The capital market links investors with the borrowers of funds. It routes money from savers to entrepreneurial borrowers.

2) Deals in medium and Long-term investment : Capital market is a market where medium and long term financial instruments are traded. Through this market, corporates, industrial organizations, financial institutions access long-term funds from both domestic and foreign markets.

3) Presence of Intermediaries : Capital market operates with the help of intermediaries like brokers, underwriters, merchant bankers, collection bankers etc. These intermediaries are important elements of a capital market.

4) Promotes capital formation : Capital market provides a platform for investors and borrowers of long term funds to trade. This leads to capital formation in an economy as it mobilizes funds.
Capital formation is the net addition to the existing stock of an economy's capital.
5) Regulated by government rules, regulations and policies : Capital market operates freely. However, it is regulated by government rules, regulations and policies. e.g. SEBI is the regulator of Capital markets.

6) Deals in marketable and non-marketable securities : Capital market trades in both marketable and non-marketable securities. Marketable securities are securities that can be transferred. e.g. Shares, Debentures etc. and non-marketable securities are those which cannot be transferred. e.g. Term Deposits, Loans and Advances.

7) Variety of Investors : Capital market has a wide variety of investors. It comprises both individuals like general public and institutional investors like Mutual Funds, Insurance companies, Financial Institutions, etc.

8) Risk: Risk is very high here as the instruments have long maturity periods. However, the return on investments is very high.