
UNIT 1 THE ROLE OF FINANCIAL MARKETS IN THE ECONOMY

Structure

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1.0 OBJECTIVES

After going through this unit, you will be able to:

- Know the nature of financial system and its various components;
- Find how equilibrium is determined in financial markets;
- Identify the function of the financial market in the process of economics growth;
- Describe the system of flow of funds accounting and discuss its uses; and
- Evaluate the significance of borrowing and lending relationship between different sectors.

1.1 INTRODUCTION

The financial system is concerned about money, credit and finance – the terms intimately related yet some what different from each other. It implies a set of complex and closely connected or inter-mixed institutions, agents, practices, markets, transactions, claims and liabilities in the economy.

The role of financial system in economic development has been a much discussed topic among economists. Economists hold dramatically different views. From a much earlier time, Bagehot (in 1873), and Schumpeter (in 1911) argued that an efficient financial system greatly helped a nation's economy to grow. As Ross Levine has pointed out it was Schumpeter's contention that well-functioning banks spurred technological innovation by offering funding to entrepreneurs that have the best chances of successfully implementing innovative products and processes.

More recent economists have been little skeptical about the role of the financial sector in economic growth. Joan Robinson (in 1952) asserted that economic growth created demand for financial institutions and that where enterprise leads finance follows. Robert Lucas (in 1988) has also dismissed the finance-economic growth relationship stating that economists "badly over-stress" the role financial factors play in economic growth.

However, in recent years thanks to the work of Ross Levine, Robert King, and others, economists are again reexamining the role financial markets play in economic growth. On the theoretical side complex models have been developed to illustrate the many channels through which the development of financial markets affect and are affected by economic growth. These channels include the facilitation of trade hedging, diversifying, and pooling of risk; the efficient allocation of resources; the monitoring of managers and exerting corporate control; the mobilisation of savings; and the facilitation of the exchange of goods and services.

On the empirical side a growing body of studies at the firm-level, industry-level, country-level and cross-country comparisons have demonstrated the strong link between the financial sector and economic growth. King and Levines research has shown that level of financial depth/defined as the ratio of liquid assets to GDP does in fact help to predict economic growth. Other work by Levine has shown that financial intermediary development does positively influence economic growth these results are shown to be robust, that is the relationships still hold when other factors that are known to influence economic growth are held constant.

1.2 NATURE OF FINANCIAL SYSTEM

A financial system is a complex, well-integrated set of sub-systems of financial institutions, markets, instruments, and services which facilitate the transfer and allocation of funds, efficiently and effectively.

There are four constituents of a financial system, viz. (i) financial institutions, (ii) financial markets, (iii) financial instruments, and (iv) financial services.

1.2.1 Financial Institutions

Financial institutions are business organisations that act as mobilisers and depositors of savings and as purveyors of credit or finance. They also provide various financial services to the community.

Financial institutions have been variously classified. Two important classifications are as follows:

- a) Banking institutions and Non-banking institutions
- b) Intermediaries and non-intermediaries.

a) **Banking institutions and Non-banking institutions**

The banking institutions have quite a few things in common with the non-banking ones, but their distinguishing character lies in the fact that unlike other institutions, (i) they participate in the economy's payments mechanism, i.e., they participate in the economy's payments mechanism, i.e., they provide transactions services, (ii) their deposit liabilities constitute a major part of the national money supply, and (iii) they can, as a whole, create deposits or credit which is money. Distinction between the two has been highlighted by Sayers by characterising the former as **"creators"** of credit, and the latter as **"purveyors"** of credit.

b) **Intermediaries and Non-intermediaries**

Intermediaries intermediate between savers and investors; they lend money as well as mobilise savings; their liabilities are towards the ultimate savers, while their assets are from the investors or borrowers.

Non-intermediary institutions do the loan business but their resources are not directly obtained from the savers.

All banking institutions are intermediaries, many non-banking institutions also act as intermediaries and when they do so they are known as **non-banking financial inter-mediaries**.

1.2.2 Financial Markets

Financial markets are a mechanism enabling participants to deal in financial claims. The market also provides a facility in which their demands and requirements interact to set a price for such claims. The participants on the demand and supply sides of these markets are financial institutions, agents, brokers, dealers, borrowers, lenders, savers, and others who are inter-linked by the laws, contracts, covenants and communications networks.

Financial markets have been variously classified. Two important classifications are:

a) Primary market and secondary market; and

b) Money market and capital market.

a) **Primary market and Secondary market**

The primary markets deal in the new financial claims or new securities, and, therefore, they are also known as 'new issue markets'.

Secondary markets deal in securities already issued or existing or outstanding.

Primary markets mobilise savings and they supply fresh or additional capital to business units. Secondary markets do not contribute directly to the supply of additional capital, they do so indirectly by rendering securities issued on the primary markets liquid.

b) **Money market and Capital market**

Money market is a market for short-term securities with a maturity of one year or less capital market is a market for long-term securities, that is, securities having a maturity period of one year or more.

Keeping in view different purposes, financial markets have also been classified into

the following categories: (i) organised and unorganised; (ii) formal and informal; (iii) official and parallels; and (iv) domestic and foreign.

1.2.3 Financial Instruments

A financial instrument is a claim against a person or an institution for the payment at a future date a sum of money and/or a periodic payment in the form of interest or dividend. The term 'and/or' implies that either of the payments will be sufficient but both of them may be promised.

Primary securities and Secondary securities

Financial securities may be primary or secondary securities. Primary securities are also termed as direct securities as they are directly issued by the ultimate borrowers of funds to the ultimate user.

Financial institutions differ in terms of marketability, liquidity, reversibility, type of options, return, risk and transaction costs.

1.2.4 Financial Services

Financial intermediaries provide key financial services such as merchant banking, leasing, hire purchase, credit-rating, etc. Financial services rendered by the financial intermediaries bridge the gap between the lack of knowledge on the part of investors and increasing sophistication of financial instruments and markets.

1.3 EQUILIBRIUM IN FINANCIAL MARKETS

Equilibrium in financial markets is usually determined by assuming that there would be perfect competition, and by using the well-known tools of demand and supply.

Equilibrium in financial markets is established when the expected demand for funds (credit) for short-term and long-term investments matches with the planned supply of funds generated out of saving and credit-creation. In other words, the equality of total desired borrowing with the total desired lending is necessary for establishing equilibrium rate of interest.

Any increase or decrease in either demand or supply of funds will disturb the equilibrium and a new equilibrium will come to be established.

The supply of funds comes from the aggregate savings of the household sector, business sector and the government sector. Saving equals the difference between the disposable income and the consumption expenditure in a given year, i.e.,

$$S = Y_d - C$$

A number of factors influence the volume of savings in the economy like the level of current and expected income, cyclical changes in income, age-wise variations in income, distribution of income in the economy, degree of certainty of income, wealth, inflation, desire to provide for old age, contingencies, thrift, rate of interest and availability of saving media with preferred investment characteristics, etc. Another major determinant of supply of funds is the development of banks and other financial institutions, which, in turn, determine the credit multiplier.

The demand for funds

The demand for funds depends upon: (1) investment in fixed and working capital, (2) demand for consumer durables, and (3) investment in housing. The total investment demand, in turn, is determined by (i) the current level of capital stock, (ii) capacity utilisation, (iii) the desired capital stock, which is influenced by business expectations regarding future demand for goods, prices, government policies, and profitability, (iv) availability of internal funds, (v) cost of funds, and (vi) technological changes. The demand for consumer durables depends upon: (i) changes in tastes and preferences, (ii) fashion, (iii) demonstration effect, and (iv) cost of funds

In practice, the financial markets are characterised by many imperfections, restrictive practices, and externalities. Consequently, the financial markets tend to experience either the excess demand or excess supply of funds. Therefore, the interest rate differs, often quite substantially, from the rate of interest determined theoretically under ideal conditions.

Check Your Progress 1

- 1) What do you mean by a financial system? What are its different components?
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- 2) Define financial institutions and also differentiate between different types of financial institutions.
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- 3) What are financial markets? Distinguish between different types of financial markets.
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- 4) Define financial instruments. Distinguish between primary securities and secondary securities.
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5) What are financial services? Give some examples.

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1.4 FUNCTIONS OF THE FINANCIAL SYSTEM IN THE PROCESS OF ECONOMIC DEVELOPMENT

The role and significance of a sound financial system can be better appreciated if we review the state of an economy which does *not* have the presence of a sound financial system. What happens in this type of economy?

1.4.1 Lack of Financial System and Vicious Circles

An underdeveloped economy may not have the advantage of the existence of a sound financial system. In such an economy with a lack of financial system a low level of investment results due to lack of incentive for incentive. This low of level of investment results in slower or no economic growth thus retarding the growth of financial system in the economy.

An economy that begins with a lack of financial system will suffer from a low saving rate. This low saving rate will lead to a low level of investment. Finally, this low level of investment will result in slow or no economic growth, further retarding the growth of financial system. Then the pattern repeats itself.

There also may be other poverty traps stemming from the lack of financial system. Consider the role of information costs. With a lack of financial system, the information costs for savers and borrowers are extremely high. Thus, these high information costs may also be reducing the level of business investment and further slowing economic growth.

The lack of financial system results in a low savings rate, but also in increasing information costs. Both the low savings and high information costs. Both the low savings and high information costs reduce overall levels of business investment. This lower level of investment slows any economic growth that the underdeveloped economy may be experiencing. the slower economic growth retards expansion of financial system and thus the cycle starts over.

Under this scenario, the lack of financial system in an economy creates a poverty trap. In this model the deficit of financial system leads to the low official savings rates, which in turn lead to low levels of investments, further slowing the economy and resulting in a low level of financial system. This negative impact is compounded by the fact that the lack of financial system increases information costs further slowing business investment. The compounded impact is to further slow economic growth and still further slow the advancement of financial system.

1.4.2 Functions of the Financial System

From the above brief description it is easy to understand that the existence of a

sound financial system is a pre-requisite for rapid economic development. A well-developed financial system can contribute significantly to the acceleration of economic development through three routes.

One, technical progress is endogenous; human and physical capital are its important sources; and the increase in them require higher saving and investment, which the financial system helps to achieve.

Two, the financial system contributes to economic development not only via technical progress but also in its own right. The economic development greatly depends upon the rate of capital formation. The relationship between capital and output is strong, direct and monotonic. Capital formation depends on whether finance is made available in time, in adequate quantity, and on favourable terms – all of which a good financial system could achieve.

Three, it also enlarges the market over space and time; it enhances the efficiency of the function of exchange and thereby helps in economic development.

In order to play such a crucial role in economic development, a financial system performs following functions:

- i) An important function of a financial system to link the savers and investors and thereby help in mobilising and allocating the savings efficiently and effectively. By acting as an efficient conduit for allocation of resources, it permits continuous upgradation of technologies for promoting growth on a sustained basis.
- ii) A financial system not only helps in selecting projects to be funded but also inspires the operators to monitor the performance of the investment. It provides a payment mechanism for the exchange of goods and services and transfers economic resources through time and across geographic regions and industries.
- iii) One of the important functions of a financial system is to achieve optimum allocation of risk bearing. It limits, pools and trades the risk involved in mobilising savings and allocating credit. An efficient financial system aims at containing risk within acceptable limits and reducing the cost of gathering and analysing information to assist operators in taking decisions carefully.
- iv) It makes available price-related information which is a valuable assistance to those who need to take economic and financial decisions.
- v) A financial system minimises situations where the information is asymmetric and likely to affect motivations among operators or when one party has the information and the other party does not.
- vi) A financial system provides financial services such as insurance and pension and offers portfolio adjustment facilities.
- vii) A financial system helps in the creation of a financial structure that lowers the cost of transactions. This has a beneficial influence on the rate of return to savers. It also reduces the cost of borrowing. Thus the system generates an impulse among the people to save more.
- viii) A well-functioning financial system helps in promoting the process of financial deepening and broadening. Financial deepening refers to an increase of financial assets as percentage of the gross domestic product. Financial broadening refers to building an increasing number and a variety of participants and instruments.

In short, the functions of a financial system are to establish a bridge between savers and investors and thereby to enlarge markets over space and time, and to allocate financial resources efficiently for socially desirable and productive purposes. The ultimate goal of the financial system is to accelerate the rate of economic development.

Check Your Progress 2

- 1) Explain how does a weak financial system retard economic growth?

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- 2) Explain the significance of a sound financial system in the process of economic development.

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- 3) Explain the functions that are performed by a financial system in the process of economic growth.

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1.5 FLOW OF FUNDS IN THE FINANCIAL MARKETS

In a modern economy, income is partly spent for consumption and partly saved, and much of the saving is channeled into investment via the financial system. An efficient financial system assures the flow of such loanable funds into their most desired uses. These institutions and markets provide borrowers with funds needed *now*, while at the same providing lenders with a variety of financial assets with varying degrees of safety, liquidity and yield.

Saving and investments are ‘flow’ concepts as opposed to stock concepts.

Investment is the process of capital formation. The existing stock of capital depreciates overtime as it is used in producing consumer goods or other investment goods, so the *net* investment is the net addition to the stock of capital occurring over a period of time. These additions to the stock of capital are “real” investment.

Saving is a residual concept. It is that part of the output of an economy that is not consumed. Output is produced over a period of time; part of that output is consumed, another part is saved and added to the stock of wealth and presumably is available for use in the future. Thus, by *definition*, saving is identical to “real investment that occurs over a period of time.”

1.5.1 Saving and Investment and National Income Accounts

Relationship between saving and investment and national income accounts are now presented in this subsection in a simplified form.

We may view expenditure for final output as consumer expenditures, government spending, gross investment spending, and net spending by foreigners for exports. The same total amount may be viewed as income received by those who receive wages, rent, interest and profits.

Income may be used for consumption spending or may be saved. Saving may be used for direct investment, or it may be used for financial investment, in the purchase of financial assets.

Financial investment may go directly into loans and investments or may be channeled through financial intermediaries such as banks, savings and loan associations, life insurance companies and others. Funds received by such institutions may be channeled into business loans and investments, investments in government securities, or consumer loans. Amounts loaned to consumers may be used by them for consumption. Similarly, amounts lent to government provide funds for the government to use for current spending.

1.5.2 Flow-of-Funds Accounts

The flow-of-funds accounts are the financial counterparts of the national income accounts of the real sector of the economy. These provide a systematic way of integrating saving, investment, lending, and borrowing. In so doing, it brings together the real and financial sectors of the economy. For these reasons, an understanding of the flow of funds accounts is an indispensable tool of the financial analyst.

What are flow-of-funds accounts? The flow-of-fund accounts include *all* the sources and uses of funds for the various sectors of the economy, and by summation, for all sectors.

Although aggregate saving and investment must be equal, *ex post*, for the entire economy, it is unlikely that saving will equal investment for a particular sector during a given period. Saving may exceed investment; the surplus on current account will have been used for purposes other than financing current expenditures. For example, the surplus funds may have been used to buy securities or to take loans. If a sector has investment greater than saving, sources other than its own saving will have provided the funds necessary to finance these expenditures. Thus, saving is but one source of funds; investment is but one use of funds.

Data for Flow-of-Funds Accounts

Flow of funds data for an economy are derived for a specific period of time by (1) dividing the economy into sectors, (2) preparing a source and use of funds statement for each sector, (3) summing the sources and uses for all sectors, and (4) placing the sector accounts side by side to form a table or matrix.

A matrix may consist of only a few sectors. For example, the entire economy can be divided into households, business firms, governments and financial institutions. In a more complex matrix, these sectors may be subdivided with additional categories established for different types of business firms, government units, financial institutions, and so on. And if foreign transactions are to be considered, it is necessary to include a sector for the rest of the world. The larger the number of sectors, the more likely it is that each sector will be composed of relatively homogeneous units. Ideally, each group's market behaviours will be similarly influenced by the same set of economic variables. However, if the economy is divided into too many sectors, the model becomes cumbersome, so too much detail may obscure more important relationships between them. The optimum number of groups depends ultimately on the purpose of the analysis and the degree of disaggregation necessary, on the availability of data, and on the time and effort required to collect and assemble the data.

The second step in construction of flow of funds accounts is to prepare a source and use statement for each sector. This is done by examining the balances sheets of the various sectors at the beginning and end of a quarter or a year. *Net* changes are noted in the stock of assets, liabilities, and net worth that occurred during the period. Certain assets might have increased in value, others declines: some liabilities may be greater and some smaller than at the beginning of the period. The convention is to treat increases in assets as a use of funds and increases in liabilities or net worth as a source of funds. On the users side, the sum of the changes in real and financial assets must be equal to, on the sources side to change in liabilities and change in net worth.

A simple source and use statement for a given sector shows intersectoral flows on a new basis. That is, it does not record intersector transactions; for example, a loan by one business firm to another would be excluded. Also, only *net* increases in assets are treated as uses of funds. Debt repayment or dissaving, which are in fact uses of funds, are treated as **negative sources of funds**. In the same way, disinvestment in real assets or the sale of securities, which are in fact *sources* of funds, are treated as **negative uses**. This characteristic of the accounts facilitates handling the data uniformly, but unfortunately it may also obscure some changes both within sectors and among different sectors.

For a given sector, and by summing all sectors, for the economy as a whole, the following equality is obtained:

$$\Delta \text{ net worth} + \Delta \text{ liabilities} = \Delta \text{ real assets} + \Delta \text{ financial liabilities. } (\Delta \text{ denotes 'change'})$$

Or,

$$\text{saving} + \text{borrowing} = \text{investment} + \text{lending}$$

It follows that if, in a particular sector, saving > investment, then lending > borrowing. This sector is a surplus sector and a net lender to other sectors. If investment > saving, then borrowing > lending. In this case the sector is a deficit sector and a net borrower from other sectors.

In principle, an account is easily established for each of the several sectors that make up the economic system. Sources and uses of funds are identified as in the case of our hypothetical sector. If we place these statements side by side, we form a matrix to describe an interconnected system of flow of funds for, say, a year. As is

shown in the hypothetical matrix in Table 1.1, not only does each sector's sources match its uses, but, by summation, total sources equal total uses. Furthermore, whereas $S \neq I$, for any sector individually, for the economy as a whole $S=I$.

Table 1.1: Flow of Fund
Accounts for a given time period

(Rs. 1000 crores)

	S E C T O R S									
	Household		Business		Govt.		Financial Intermediaries		All Sectors	
	U	S	U	S	U	S	U	S	U	S
Saving (networth)		60		40		-10				90
Investment (real assets)	10		80						90	
Net Change in financial assets	50						50		100	
Net change in financial liabilities				40		10	50			100
TOTAL	60	60	80	80	0	0	0	0	190	190
Sector surplus or deficit	50		(40)		-		-		-	

U = Uses of funds

S = Sources of funds

Table 1.1 is a simplified, hypothetical flow of funds matrix for an economy that has been divided into four sectors. Items in the cells of the matrix represent rupee flows that occurred during a period of time. In general, U stands for the uses of funds and represents acquisitions or additions to assets, while S stands for sources of funds and represents additions to liabilities or to net worth.

We find that households saved Rs.60 thousand crores of their income during the period and used Rs.10 thousand crore of this to purchase real investment goods and the remaining Rs.50 thousand crore of this saving to purchase financial assets from financial intermediaries. The business sector saved Rs.40 thousand crore during this period. This required business to obtain Rs.40 thousand crore additional fund and from financial intermediaries to have a total of Rs. 80 thousand crore for investment spending the government, by running a deficit in its budget, dissaved Rs. 10 thousand crore and had to issue Rs.10 thousand crore of financial liabilities to cover this excess of spending over tax revenues. Finally, financial intermediaries experienced an increase in both assets and liabilities. They accepted deposit liabilities to the households in the economy in the amount of Rs.50 thousand crores. At the same time, they used these deposits to purchase the debt of Rs.40 thousand crore that business offered in the market and Rs.10 thousand crores borrowed by government.

The column totals show equality of sources and uses for each sector, in keeping with the requirements that flow of funds statements always balance, so that net changes in uses equal net changes in sources for each sector.

The new sources show the overall equality of uses and sources of funds in the aggregate, for all sectors. Saving by households, business and government totalled Rs.90 thousand crore, since the government actually dissaved Rs.10 thousand crore. This total saving also equals total investment of Rs.90 thousand crores, of which, in this simplified example, Rs.80 thousand crore was undertaken by business firms and Rs.10 thousand crore by households. The government's dissaving figure (Rs.10 thousand crore) probably results from the fact that government spending is treated as being entirely for goods and services and not as representing additions to the stock of capital.

Households increased their holdings of financial assets by Rs.50 thousand crores, and this is reflected in the sources of the 'financial intermediaries' column, showing a Rs.50 thousand crore increase in financial liabilities. This Rs.50 thousand crore might be, for example, consumer demand or savings deposits at commercial banks – liabilities of financial institutions the Rs.50 thousand crores, under uses, reflected the purchase of government and business securities. Overall, financial assets increased by a total of Rs.100 thousand crores, and liabilities also increased by Rs.100 thousand crores. Thus, in the "all sectors" column the total of \$190 thousand crore reflects the equality: saving + borrowing = investment + lending. In our example, saving and investment were both 90, while borrowing and lending were both Rs.100 thousand crore.

Along the bottom of Table 1.1 there is a row indicating the surplus or deficit that each sector realised during the period. Household had a surplus of Rs.50 thousand crore, whereas business firms and government both engaged in deficit financing part of their expenditures, Rs.40 thousand crore and Rs.10 thousand crore respectively.

From the figures in the flow of funds matrix we can construct a credit market summary table that shows funds raised and advanced by sector. Table 1.2 provides this summary.

Table 1.2 : Credit Market Summary

(Rs. in '000)

Funds Raised by Sectors	
Households	0
Business	40
Government	10
Financial Institutions	50
Total	100
Funds Advanced by Sectors	
Households	50
Business	0
Government	0
Financial Institutions	50
Total	100

In Table 1.2 we did not include a separate row for money; rather, we pooled money in the row with other financial assets. Furthermore, we did not allow for the fact that business and government borrow funds directly from the government sector and from each other; all borrowing sector and from each other; all borrowing took the

form of loans from financial institutions. We have also assumed that the non-financial sector acquired financial assets or financial liabilities; that is, they loaned or borrowed funds. We know, of course, that they do engage in both borrowing and lending. These simplifying assumptions were made to acquaint the reader with the basic elements of flow of funds accounting.

1.5.3 Significance of Flow of Funds Accounts

Flow of funds accounts provide useful framework for classifying and measuring the sources and uses of both internal and external funds. This framework shows clearly the relationships among various sectors of the economy. It provides historical data on each sector's saving, investment, lending, and borrowing. Financial analysts use these data to make estimates of prospective financial flows, especially when forecasting interest rates. Other applications include the testing of hypotheses concerning the portfolio behaviour of consumers and business firms and the relationships of credit flows to total spending on goods and services.

Check Your Progress 3

- 1) What do you mean by flow of funds?

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- 2) Mention the uses of flow of funds accounting.

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- 3) What does the flow of funds matrix of an economy show?

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1.6 LET US SUM UP

- 1) A financial system comprises a set of complex and closely connected or inter-mixed institutions, agents, practices, markets, transactions, claims and liabilities in the economy.
- 2) A financial system consists of (i) financial institutions, (ii) financial markets, (iii) financial instruments, and (iv) financial services.

- 3) Financial institutions are business organisations that act as mobilisers and depositories of savings and as purveyors of credit or finance.
- 4) Financial intermediaries provide key financial services.
- 5) Financial intermediaries provide key financial services.
- 6) Equilibrium in a financial system is established at that rate of interest where the demand for funds equals the supply of funds.
- 7) The functions of a financial system are to establish a bridge between savers and investors and thereby to enlarge markets over space and time, and to allocate financial resources efficiently for socially desirable and productive purposes.
- 8) Flow of funds account provide a useful framework for classifying and measuring the sources and uses of both interval and external funds. This framework shows clearly the relationships among various sectors of the economy.

1.7 KEY WORDS

Deficit Sector	: A sector which invests more than it saves.
Financial Capital	: The liquid as opposed to physical assets of company.
Financial Instrument	: Any document which is evidence of debt, transfer of which enables the seller to acquire finance.
Financial Intermediary	: Any operator engaged in bringing together ultimate providers ultimate users of finance.
Financial Ratios	: Ratios between particular groups of assets or liabilities of an enterprise and corresponding totals of assets or liabilities, or between assets or liabilities and flows like turnover or revenue.
Flow of Funds Accounting	: It combines sector income statements and balance sheets to construct sector sources and uses of funds statements.

1.8 SOME USEFUL BOOKS

Polakoff, Murray E. and Thomas A. Durking (1981), *Financial Institutions and Markets* (Houghton Mifflin, Boston)

Smith, Paul F.(1971), Smith, Paul F.(1971), *Economics of Financial Institutions and Markets* (Richward D.Irwin, Homewood)

Dougall, Herbet E. and Jack E.Gaumnitz(1980) *Capital Markets and Institutions* (Prentice Hall, Englewood cliffs)

1.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See section 1.2
- 2) See sub-section 1.2.1

- 3) See sub-section 1.2.2
- 4) See sub-section 1.2.3
- 5) See sub-section 1.2.4

Check Your Progress 2

- 1) See section 1.4
- 2) See section 1.4
- 3) See sub-section 1.4.1

Check Your Progress 3

- 1) See section 1.5
- 2) See sub-section 1.5.3
- 3) See sub-section 1.5.2