Money Market

Money market is a market in which **short term funds are bought and sold(borrowed and lent).** In other words, it is a market for short term funds.

Money market provides the facility of borrowing funds for those who are in need for short periods and it also provides the facility to those who have surplus funds to invest for short periods.

Crowther defines money market as **‘it is the collective name given to various firms and institutions that deal in the various grades of near money.’**

Money market **does not deal in actual cash** but in **Bills of Exchange, Promissory notes, Govt.papers etc**. which are drawn for short periods. These short term papers are known as **Near Money Assets.** Normally, the word market refers to a special place where buying and selling take place. As far as money market is concerned, there is no specific place or organisation for its activities.

Money market is a common name given for all institutions and individuals engaged in the marketing of short term instruments. In money market, **transactions** take place with the help of devices like **telephone, mail telex, internet etc.** But generally, money market is associated with a particular place such as **Mumbai Money Market, London Money Market, New York Money Market.**

Mumbai Money market is the centre where short term funds of not only Mumbai but also the **whole of India** are attracted and quickly borrowed and lent.

London Money Market, on the other hand is a market of international importance known as **international money market** and it attracts short term funds from all over the world.

Dealers in the Money market

Dealers in the money market means important **borrowers and lenders** of funds for short period. Important **borrowers** are **Govt., Business Houses, Commercial banks, Stock Merchants, farmers, Individuals etc.** all of them require funds for short period to meet their expenditure pattern.

Important lenders in the Money market are the **Central bank, commercial banks and other financial institutions.** Since commercial banks act as both borrowers and lenders of the money market they are called the nucleus of the whole money market.

Features of Money Market

1. Money market deals **not with actual money, but with near money assets.**
2. Working of money market is **not confined to a particular place**. Whenever public and institutions are prepared to buy and sell short term financial assets and other instruments, money market is said to exist in all such places.
3. Money market is **a common name** given to institutions, individuals and submarkets, who deal in different types of instruments.
4. It deals with **only short period** loans and investments.

Structure of Money Market

Money market is a combination of different **sub-markets.** Each submarket specialises in a particular short term instrument. Structure of money market may vary from country to country. There is no uniformity in its structure. The important components of money market are the following:

1) Call money market 2)Acceptance Market 3)Bill Market 4)Treasury Bill Market 5)Commercial Papers Market 6)Certificate of Deposits market

1.Call Money market

It is a market for very short period borrowers will have to repay the loan at short notice. The duration of such loan is **generally 24 hours, but any way it will not exceed 14 days.** Commercial banks are the lenders of these loans and borrowers are the stock brockers and bill brockers. This is a convenient method of lending by commercial banks. As these loans are repayable on demand, they are almost liquid as cash in hand. Rate of interest on call loans is much lower than the normal market rate.

2.Acceptance Market

It is another component of the money market. It assists in financing internal and international trade through the provision of short-term funds. **Specialised firms known as acceptance houses deal in banker's acceptance market. When a trade bill is guaranteed by the acceptance houses, it becomes readily saleable** in the market and business transactions can be carried out smoothly.

3.Bill Market:-

Bill market is a market in which short dated bills of exchange are bought and sold. These types of bills are used in internal and international trade.

4.Treasury Bill Market:-

It is a market in which funds are borrowed by the govt. for a specific time period, generally three months. Those who are ready to quote the lowest rate of interest will get the govt. security. It is just like the promissory note of the govt. that it will pay a specified sum of money after the date of issue.

5.Commercial paper Market

Commercial paper is a money market instrument **issued by well-known companies to raise short-term funds** from the money market. Commercial papers are issued for periods ranging **between 3 months to 6 months**. The company issuing Commercial Paper **sells it in the money market for a price less than its face value. On maturity, the holder gets full value of the commercial paper.**

6.Certificate of Deposits market

Certificate of Deposit is a short-term bearer instrument **issued by banks and other financial institutions for a minimum period of three months and maximum one year.** Banks sell these Certificates of Deposits at a discount. On maturity, the holder of it receives its face value.

Institutions in a Money market

Banks

Central banks

Acceptance Houses

Discount Houses

Bill Brokers

Features of a Developed Money Market

1. Well organised Banking System
2. Powerful Central Bank
3. Existence of Specialised sub-markets
4. Adequate Near money assets
5. Adequate number of Dealers
6. Attracting Foreign Funds
7. Growth of Industrial and Corporate sector
8. Growth of Volume of International Trade.

Features of Indian Money Market

1. **Dichotomy(Unorganised and Organised sectors)**
2. **Seasonality**
3. **Lack of a well integrated banking system**
4. **Lack of Foreign funds**
5. **Shortage of Capital**
6. **Differences in interest rates.**

Capital Market

Capital market refers to the institutional arrangements which facilitate the lending and borrowing of long-term funds.

A capital market deals in **stocks, shares, debentures of corporations, bonds and securities of govts.on a long-term basis** and thus provides fixed and working capital to industry.

The various **institutions** participating in the capital market are: **the merchant bankers, the commercial banks and the non-banking financial intermediaries like insurance companies, mutual funds, investments houses, unit trusts, leasing finance companies, building societies etc.**

The Capital market carries all its activities through a stock exchange. A stock exchange facilitates transactions in the **sale and purchase of shares, stocks, bonds, securities and debentures.** It not only deals with secondary securities but also in the new issues**. In essence, the capital market pools medium term and long term funds through a variety of institutions and mechanisms and makes them available to various individuals, govts. and business houses.**

Functions of Capital market

1.It helps in **mobilising the savings of the country and directs it into the productive purposes.**

2.It **provides incentives to saving and facilitates capital formation** by offering suitable rates of interest.

3.It provides an opportunity to the individual investors to **employ** their savings in **more productive channels.**

4.It **helps the economic development** of a country by increasing the total production and productivity.

5.It helps in **effectively utilising capital funds for acquiring latest technology** in the production process so that the entire nation gets benefited.

Comparison of Money market and Capital Market (Differences)

Money Market	Capiatl market
1.Maturity Period:-	**1.Maturity Period:-**
Lending and borrowing of short-term funds(ie., for one year or less)	Lending and borrowing of long-term finance(ie., for more than one year)
2.Credit Instruments:-	**2.Credit Instruments:-**
Call money, Collateral Loans, Acceptances, Bills of exchange	Stocks, Shares, Debentures, Securities of Govt etc.
3.Nature of Credit Instruments:-	**3.Nature of Credit Instruments:-**
More Homogeneous	More Hetrogeneous

4.Institutions:-

Central Banks, Commercial Banks, Acceptance Houses, NBFIs, Bill Brokers etc.

5.Purpose of Loan:-

Short term credit needs of the business, working capital to industrialists

6.Degree of Risk:-

Smaller

4.Institutions:-

Stock Exchanges, Commercial Banks, NBFIs(Insurance Companies, Mortgage Banks, Building Societies etc.

5.Purpose of Loan:-

Long term credit needs of the industrialists, fixed capital to buy land, machinery etc.

6.Degree of Risk:-

Greater.

7. Basic Role:-

Liquidity adjustment

8.Relation with Central Bank:-

Close relation

9.Market Regulation:-

Commercial banks are closely regulated

7.Basic Role:-

Putting capital to work preferably to long-term, secure and productive employment.

8.Relation with Central Bank:-

Feels influence, but mainly indirectly and through the money market.

9.Market regulation:-

Institutions not much regulated

Similarities

1.Complementary:-

The money market and capital market are complementary to each other and are not competitive. The difference between the two is only of degree rather than of kind.

2.Same Institutions:-

Certain institutions operate both in money as well as Capital markets. Commercial banks, for example, which traditionally specialise in short-term funds, have started giving long-term loans in recent times.

3.Interdependence:-

Money market and capital markets are interdependent. The activities and policies of one market have their impact on those of other.