Assignment III

Advantages of Money Markets for a short term private investor:

- Money markets provide a platform for the investors that allow highly liquid investments and makes easy for borrowers to access money when in need of it. With maturities ranging from 1 day to 1 year, these instruments are highly liquid.
- Money markets helps investors and borrowers to meet their short term goals and ensure participants gain greater benefits from cash surpluses rather than keeping the money idle.
- Stock markets are highly volatile and generally in a continuous flux. In such situations, investor will be confused where to put his money. Money markets serve as a safer bet then.
- Money market's interest rates are slightly higher than the interest of savings account and current account.
- There are some tax free money market funds which might be useful to the people in higher tax slabs.
- Money market instruments have less or no-fee at all as it can be bought and sold at any time.

Treasury Bills Vs Commercial Paper:

- Commercial bills are unsecured, short-term debt issued by a corporation, often times for the financing of short-term liabilities and inventory. Meanwhile, a Treasury bill (T-Bill) is short-term debt backed by the U.S. government with a maturity of under one year. Funds raised from selling T-Bills are intended to support various public projects, such as the construction of schools and highways.
- Commercial paper is considered a very safe investment, only companies with high credit ratings and credit-worthiness issue commercial paper.
- With the T- bills, investor has less risk as government will be able generate the cash flow easily than the commercial companies. Whereas the interest rate for the commercial paper is higher than the T – bills issued by government.
- When the both, T – bills and commercial paper offer same interest rate, investor should go for the T – bills as it not worth risking the money for same interest rate.
- Commercial paper does not have to be registered with the SEC if the term to maturity is nine months or less. The average maturity is around 30 days, so the elimination of the need to comply with SEC rules brings down the compliance costs of issuing these instruments.
- Maturities and the amount of commercial paper can be adjusted to fit the needs of the borrower.

A money-market fund, which invests in a large number of commercial paper instruments and then sells stakes in the fund to private investors. This way the private investor has a middle man who will be held responsible for his money, if the commercial paper seller defaults the payment. Usually, these funds are maintained by well-established institutions or banks which have regulations. Investing this type of funds will give the investor safety for the principle amount as well as higher interest rate than what low risk instruments like T – bills give.

Source: Investopedia, Online markets, research papers