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**Acknowledgements**

I would like to express my special thanks of gratitude to my teacher as well as our principal who gave me the golden opportunity to do this wonderful project on the topic, which also helped me in doing a lot of Research and I came to know about so many new things I am thankful to them.

Secondly, I would also like to thank my parents and friends who helped me a lot in finalizing this project within the limited time frame.

**AN OVERVIEW OF FINANCIAL SYSTEM**

FINANCIAL SYSTEM

A financial system is a network of financial institutions – such as insurance companies, stock exchanges, and investment banks – that work together to exchange and transfer capital from one place to another. Through the financial system, investors receive capital to fund projects and receive a return on their investments.

FUNCTIONS OF FINANCIAL SYSTEM:

1. Savings Function:

The lobal system of financial markets and institutions provides a channel for the public's savings. Bonds, stocks, and other financial claims sold in the money and capital markets provide a profitable, relatively low-risk outlet for the

public's savings, which flow through the financial markets into investment so that more goods and services can be produced

(i.e., productivity will rise), increasing the world's standard of living. Circulation of money in markets will promote savings.

(2) Wealth Function:

Financial system also makes sure that one can liquidate his or her savings whenever he or she wants it and therefore individuals can have both the things, which involve return on investments as well as comfort that they can liquidate their investments whenever they want. Thus, it helps in creating wealth.

(3) Liquidity Function:

Financial system also makes sure that one can liquidate his or her savings whenever he or she wants it and therefore individuals can have both the things, which involve return on investments as well as comfort that they can liquidate their investments whenever they want.

(4) Transferring resources across time and space:

A well-developed financial system provides a way to transfer economic resources through time and across geographic regions and industries. Loans help move resources from the future to today. and savings products help do the opposite, but the underlying function for these two seemingly different products is the same. Student loans, borrowing to buy a house and saving for retirement are all actions that shift resources from one point in time to another. The financial system also provides mechanisms to shift resources from one place to another.

(5) Economic Development:

The financial system is also particularly important in reallocating capital and thus providing the basis for the continuous restructuring of the economy that is needed to support growth. In countries with a highly developed financial system, we observe that a greater share of investrnent is allocated to relatively fast-growing sectors. India is a mixed economy. The Government intervenes in the financial system to influence macro-economic variables like interest rate or inflation. Thus, credits can be made available to corporate at a cheaper rate. This leads to economic development of the nation.

(6) Payment function:

The financial system offers a very convenient mode of payment for goods and services. The cheque system and credit card system are the easiest methods of payment in the economy. The cost and time of transactions are considerably reduced.

(7) Risk function:

The financial markets provide protection against life, health and income risks. These guarantees are accomplished through the sale of life, health insurance and property insurance policies.

INTRODUCTION OF INDIAN FINANCIAL SYSTEM

Meaning of Indian financial system

The financial system enables lenders and borrowers to exchange funds. India has a financial system that is controlled by independent regulators in the sectors of insurance, banking, capital markets and various services sectors. Thus, a financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes.

INDIAN FINANCIAL SYSTEM:

From Financial Neutrality to Financial Activism:

Till the late 1960s, the role of financial intermediaries in general, And banks in particular, in the process of economic growth of a country was largely ignored. Influential work during the late 1960s and early 1970s showed that there exists a strong positive correlation between financial development and economic growth and highlighted the negative impact of financial repression' on the growth process With many side effects of fixed exchange rate system, floating exchange rate system was been adopted by the early 1970s as free trade, liberalized external capital movements, and a relatively flexible use of domestic monetary policy was need of the day. This motivated free flow of capital across. Simultaneously, efforts were made to remove distortions in the domestic financial sector through elimination or containment of reserve requirements and interest rate regulations. All these factors helped the process of internationalization of financial markets. Financial development required the deepening and widening of the existing financial development required the deepening and widening of the existing financial markets as well as the introduction of new products and instruments to cater to the needs of savers and investors. From Financial Volatility to Financial Stability:

The Indian financial sector has undergone radical transformation over the 1990s. Reforms have altered the organizational structure, Ownership pattern and domain of operations of institutions and infused competition in the financial sector. This has forced financial institutions to reposition themselves in order to survive and grow. The extensive progress in technology has enabled markets to graduate from outdated systems to modern business processes, bringing about a significant reduction in the speed of execution of trades and in transaction costs. Large capital inflows, however, carry the risk of financial sector vulnerability

COMPONENETS OF INDIAN FINANCIAL SYSTEM

The Indian financial system is composed of four major components: financial institutions, financial markets, financial instruments/assets/securities, and financial services. Financial institutions are intermediaries that facilitate the smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial markets and institutions facilitate the transfer of funds to be used more productively and profitability to increase national income. Financial instruments are products in the financial market, and financial services are for the country's citizens and companies. These services help mobilize funds, and the investors earn interest and secure savings. The borrowers get loans, and the institutions help in security sales, money settlements, lending, etc. The Indian financial system is a dynamic and multifaceted ecosystem that has undergone significant transformations in recent years, embracing technology, fostering inclusion, and contributing to India's economic growth and development.

FEATURES OF INDIAN FINANCIAL SYSTEM:

• It plays a vital role in economic development of a country.

• It encourages both savings and investment.

• It links savers and investors.

• It helps in capital formation.

• It helps in allocation of risk.

• It facilitates expansion of financial markets.

COMPONENTS/ CONSTITUENTS OF INDIAN FINANCIAL SYSTEM

The following are the four major components that comprise the Indian Financial System:

1. Financial Institutions

2. Financial Markets

3. Financial Instruments/ Assets/ Securities

4. Financial Services.

FINANCIAL INSTITUTIONS

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities (individual, business, government) seeking advice on various issue ranging from restructuring to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets or elsewhere. Financial institutions are also termed as financial intermediaries because they act as middle between savers by accumulating Funds them and borrowers by lending these funds. It is also act as intermediaries because they accept deposits from a set of customers (savers lend these funds to another set of customers (borrowers). Like - wise investing institutions such ICCIC, mutual funds also accumulate savings and lend these to borrowers, thus perform the role of financial intermediaries.

TYPES OF FINANCIAL INSTITUTIONS

Financial institutions can be classified into two categories:

A. Banking Institutions

B. Non - Banking Financial Institutions

1. BANKING INSTITUTIONS (Reserve Bank of India)

Indian banking industry is subject to the control of the Central Bank. The RBI as the apex institution organises, runs, supervises, regulates and develops the monetary system and the financial system of the country. The main legislation governing commercial banks in India is the Banking Regulation Act, 1949.

The Indian banking institutions can be broadly classified into two categories:

1. Organised Sector

2. Unorganised Sector.

1. Organised Sector The organised banking sector consists of commercial banks, cooperative banks and the regional rural banks.

(a) Commercial Banks: The commercial banks may be scheduled banks or non – scheduled banks. At present only one bank is a non - scheduled hank. All other banks are schedule banks. The commercial banks consist of 27 public sector banks, private sector banks and foreign banks. Prior to 1969, all major banks with the exception of State Bank of India in the private sector. An important step towards public sector banking was taken in July 1969, when 14 major private banks with a deposit base of 50 crores or more were nationalised. Later in 1980 another 6 were nationalised bringing up the total number banks nationalised to twenty.

(b) Co-operative banks: An important segment of the organized sector of Indian banking are the co-operative banking. The segment is represented by a group of societies registered under the Acts of the states relating to cooperative societies. In fact, co-operative societies may be credit societies or non-credit societies.

Different types of co-operative credit societies are operating in Indian economy. These institutions can be classified into two broad categories:

1. Rural credit societies which are primary agriculture, (b) Urban credit societies which are primarily non-agriculture. For the purpose of agriculture credit there are different co-operative credit institutions to meet different kinds of needs.
2. Regional Rural Banks (RRBs): Regional Rural Banks were set by the state government and sponsoring commercial banks with the objective of developing the rural economy. Regional rural banks provide banking services and credit to small farmers, small entrepreneurs in the rural areas. The regional rural banks were set up with a view to provide credit facilities to weaker sections. They constitute an important part of the rural financial architecture in India. There were 196 RRBs at the end of June 2002, as compares to 107 in 1981 and 6 in 1975.
3. Foreign Banks: Foreign banks have been in India from British days. Foreign banks as banks that have branches in the other countries and main Head Quarter in the Home Country. With the deregulation (Elimination of Government Authority) in 1993, a number of foreign banks are entering India. Foreign Banks are: Citi Bank. Bank of Ceylon.

2. Unorganised Sector.

In the unorganised banking sector are the Indigenous Bankers, Money Lenders.

1. Indigenous Bankers

Indigenous Bankers are private firms or individual who operate as banks and as such both receive deposits and given loans. Like bankers, they also financial intermediaries. They should be distinguished professional money lenders whose primary business is not banking and money lending. The indigenous banks are trading with the Hundis, Commercial Paper.

2. Money Lenders:

Money lenders depend entirely to on their one funds. Money Lenders may be rural or urban, professional or non-professional. They include large number of farmers, merchants, traders. Their operations are entirely unregulated. They charge very high rate of interest.

1. NON – BANKING INSTITUTIONS

The non – banking institutions may be categorized broadly into two groups:

(a) Organised Non – Banking Financial Institutions.

(b) Unorganised Non – Banking Financial Institutions.

1. Organised Non – Banking Financial Institutions

The organised non - banking financial institutions include:

1. Development Finance Institutions.

These include: The institutions like IDBT, ICICI, IFCI, IIBI, IRDC at all India level. The State Finance Corporations (SFCs), State Industrial Development Corporations (SIDCs) at the state level. Agriculture Development Finance Institutions as NABARD, LDBS etc. Development banks provide medium- and long-term finance to the corporate and industrial sector and also take up promotional activities for economic development

1. Investment Institutions.

These include those financial institutions which mobilise savings at the public at large through various schemes and invest these funds in corporate and government securities. These include LIC, GIC, LTT, and mutual funds. The non - banking financial institutions in the organised sector) have been discussed at length in detail in separate chapters of this book. (b) Unorganised Non - Banking Financial Institutions The unorganised non - banking financial institutions include number of non - banking financial companies (NBFCs) providing whole range of financial services. These include hire - purchase 300 consumer finance companies, leasing companies, housing finance companies, factoring companies, Credit rating agencies, merchant banking companies etc. NBFCs mobilise public funds and provide loanable funds.

It is through financial markets and institutions that the financial system of an economic works. Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bank deposits, bills, bonds etc. Functions of financial markets are:

1. To facilitate creation and allocation of credit and liquidity
2. To serve as intermediaries for mobilisation of savings.
3. To assist the process of balanced economic growth.
4. To provide financial convenience.
5. To cater to the various credit needs of the business houses.

These organised markets can be further classified into two they are

1. Capital Market (ii) Money Market

CAPITAL MARKET

The capital market is a market for financial assets which have a long or indefinite maturity. Generally, it deals with long term securities which have a maturity period of above one year. Capital market may be further divided into three namely:

1. Industrial securities market
2. Government securities market and
3. Long term loans market

1. INDUSTRIAL SECURITIES MARKET: As the very name implies, it is a market for industrial securities namely:

Equity shares or ordinary shares,

Preference shares and

Debentures or bonds.

It is a market where industrial concerns raise their capital or debt by issuing appropriate instruments. It can be further subdivided into two. They are: (I) Primary market or New issue market (ii) Secondary market or Stock exchange

Primary Market

Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue market. The primary market deals with those securities which are issued to the public for the first time. In the primary market, borrowers exchange new financial securities for long term funds. Thus, primary market facilitates capital formation. There are three ways by which a company may raise capital in a primary market.

They are: (i) Public issue (ii) Rights issue (iii) Private placement

The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue. When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue. Private placement is a way of selling securities privately to a small group of investors.

Secondary Market

Secondary market is a market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. Generally, such securities are quoted the Stock Exchange and it provides a continuous and regular market to buying and selling of securities. This market consists of all stock exchanges recognised by the Government of India. The stock exchanges in India are regulated under the Securities Contracts (Regulation) Act 1956. The Bombay Stock Exchange is the principal stock exchange in India which sets the tone of the other stock markets.

II. GOVERNMENT SECURITIES MARKET

It is otherwise called Gilt - Edged securities market. It is a market where Government securities are traded. In India there are many kinds of Government Securities - short term and long term. Long term securities are traded in this market while short term securities are traded in the money market. Securities issued by the Central Government, State Governments, Semi Government authorities like City Corporations, Port Trusts etc. Improvement Trusts, State Electricity Boards, All India and State level financial institutions and public sector enterprises are dealt in this market.

III. LONG TERM LOANS MARKET

Development banks and commercial banks play a significant role in this market by supplying long term loans to corporate customers. Long term loans market may further be classified into: (1) Term loans market (ii) Mortgages market (iii) Financial Guarantees market.

Term Loans Market

In India, many industrial financing institutions have been created by the Government both at the national and regional levels to supply long term and medium-term loans to corporate customers directly as well as indirectly. These development banks dominate the industrial finance in India. Institutions like IDBI, IFCI, ICICI, and other financial corporations come under this category.

Mortgages Market

A mortgage loan is a loan against the security of immovable property like real estate. The transfer of interest in a specific immovable property to secure a loan is called mortgage. This mortgage may be equitable mortgage or legal one.

MONEY MARKET

Money market is a market for dealing with financial assets and securities which have a maturity period of upto one year. In other words, it is a market for purely short-term funds. The money market may be subdivided into four. They are: (i) Call money market (ii) Commercial bills market (iii) Treasury bills market (iv) Short term loan market.

Call Money Market

The call money market is a market for extremely short period loans say one day to fourteen days. So, it is highly liquid. The loans are repayable on demand at the option of either the lender or the borrower. In India, call money markets are associated with the presence of stock exchanges and hence, they are located in major industrial towns like Bombay, Calcutta, Madras, Delhi, Ahmedabad etc. The special feature of this market is that the interest rate varies from day to day and even from hour to hour and Centre to Centre. It is very sensitive to changes in demand and supply of call loans.

Commercial Bills Market

It is a market for Bills of Exchange arising out of genuine trade transactions. In the case of credit sale, the seller may draw a bill of exchange on the buyer. The buyer accepts such a bill promising to pay at a later date specified in the bill. The seller need not wait until the due date of the bill. Instead, he can get immediate payment by discounting the bill.

Treasury Bills Market

It is a market for treasury bills which have ' short - term ' maturity. A treasury bill is a promissory note or a finance bill issued by the Government. It is highly liquid because its repayment is guaranteed by the Government. It is an important instrument for short-term borrowing of the Government There are two types of treasury bills namely (i) ordinary or regular and (ii) ad hoc treasury bills popularly known as ' ad hoc’. Ordinary treasury bills are issued to the public, banks and other financial institutions with a view to raising resources for the Central Government to meet its short-term financial needs. Ad hoc treasury bills are issued in favour of the RBI only. They are not sold through tender or auction. They can be purchased by the RBI only. Ad hoc are not marketable in India but holders of these bills can sell them back to RBI.

Short - Term Loan Market

It is a market where short - term loans are given to corporate customers for meeting their working capital requirements. Commercial banks play a significant role in this market. Commercial banks provide short term loans in the form of cash credit and overdraft Over draft facility is mainly given to business people whereas cash credit is given to industrialists. Overdraft is purely a temporary accommodation and it is given in the current account itself. But cash credit is for a period of one year and it is sanctioned in a separate account.

FINANCIAL INSREUMENTS

Financial instruments refer to those documents which represents financial claims on assets. As discussed earlier, financial asset refers to a claim to a claim to the repayment of a certain sum of money at the end of a specified period together with interest or dividend. Examples: Bill of exchange, Promissory Note, Treasury Bill. Financial securities can be classified into: (i) Primary or direct securities. (ii) Secondary or indirect securities.

Primary Securities

These are securities directly issued by the ultimate investors to the ultimate savers. E.g. shares and debentures issued directly to the public.

Secondary Securities

These are securities issued by some intermediaries called financial intermediaries to the ultimate savers. E.g. Unit Trust of India and mutual funds issue securities in the form of units to the public and the money pooled is invested in companies. Again, these securities may be classified on the basis of duration as follows: (i) Short - term securities (ii) Medium term securities (iii) Long - term securities.

Short - term securities are those which mature within a period of one year. Egg, Bill of Exchange, Treasury bill, etc. Medium term securities are those which have a maturity period ranging between one and five years. E.g. Debentures maturing within a period of 5 years, Long - term securities are those which have a maturity period of more than five years. Egg, Government Bonds maturing after 10 years.

FINANCIAL SERVICES

Efficiency of emerging financial system largely depends upon the quality and variety of financial services provided by financial intermediaries. The term financial services can be defined as “activities, benefits, and satisfactions, connected with the sale of money, that offer to users and customers, financial related value. within the financial services industry the main sectors are banks, financial institutions, and non-banking financial companies.

Financial services provided by various financial institutions, commercial banks and merchant bankers can be broadly classified into two categories.

1. Asset based/fund-based services. 2. Fee based/advisory services.

Asset based/fund-based services

The asset/ fund-based services provided by banking and non - banking financial institutions as discussed below briefly.

1. Equipment Leasing/ Lease Financing

Leasing is an arrangement that provides a firm with the use and control over assets without buying and owning the same. It is a form of renting assets. However, in making an investment, the firm need not own the asset. It is basically interested in acquiring the use of the asset. Thus, the firm may consider leasing of the asset rather than buying it. In comparing leasing with buying, the cost of leasing the asset should be compared with the cost of financing the asset through normal sources of financing, i. e. debt and equity. Since payment of lease rentals is similar to payment of interest on borrowings and lease financing is equivalent to debt.

1. Hire Purchase and Consumer Credit

Hire purchase means a transaction where goods are purchased and sold on the terms that (i) payment will be made it installments, (ii) the possession of the goods is given to the buyer immediately, (iii) the property ownership) in the goods remains with the vendor till the last installment is paid, (iv) the seller can repossess the goods in case of default in payment of any instalment, and (v) each instalment is treated as hire charges till the last instalment is paid.

Consumer credit includes all asset-based financing plans offered to individuals to help them acquire durable consumer goods. In a consumer credit transaction, the individual/ consumer/ buyer pays a part of the cash purchase price at the time of the delivery of the asset and pays the balance with interest over a specified period of time.

1. VENTURE CAPITAL

In the real sense, venture capital financing is one of the most recent entrants in the Indian capital market. There is a significant scope for venture capital companies in our country because of increasing emergence of technocrat entrepreneurs who lack capital to be risked. These venture capital companies provide the necessary risk capital to the entrepreneurs so as to meet the promoter’s contribution as required by the financial institutions. In addition to providing capital, these VCFS (venture capital firms) take an active interest in guiding the assisted firms.

1. Insurance Services

Insurance is a contract where by the insurer e. insurance company agrees/ undertakes, in consideration of a sum of money (premium) to make good the loss suffered by the insured (policy holder) against a specified risk such as fire or compensate the beneficiaries (insured) on the happening of a specified event such as accident or death. The document containing the terms of contract, in black and white, between the insurer and the insured is called policy. The property which is insured is the subject matter of insurance. The interest which the insured has in the subject matter of insurance is known as insurable interest. Depending upon the subject matter, insurance services are divided into (i) life (ii) general.

1. Factoring

Factoring, as a fund based financial service provides resources to finance receivables as well as it facilitates the collection of receivables. It is another method of raising short - term finance through account receivable credit offered by commercial banks and factors.

A commercial bank may provide finance by discounting the bills or invoices of its customers. Thus, a firm gets immediate payment for sales made on credit. A factor is a financial institution which offers services relating to management and financing of debts arising out of credit sales.

B. FEE BASED ADVISORY SERVICES

(i) Merchant Banking

Fee based advisory services includes all these financial services rendered by Merchant Bankers. Merchant bankers play an important role in the financial services Sector. The Industrial Credit and Investment Corporation of India (ICICI) was the first development finance institution to initiate such service in 1974. After mid - seventies, tremendous growth in the number of merchant banking organisations les taken place. These include banks financial institutions, non - banking financial companies (NBFCS), brokers and so on. financial Services provided by these organisations include loan syndication portfolio management, corporate counselling project counselling debenture trusteeship, mergers acquisitions.

(ii) Credit Rating

Credit rating is the opinion of the rating agency on the relative ability and willingness of the issuer of debt instrument to meet the debt service obligations as and when they arise. As a fee based financial advisory service, credit rating useful to investors, corporates (borrowers), banks and financial institutions. For the investors, it is an indicator expressing the underlying credit quality of a (debt) issue programme. The investor is fully formed about the company as any effect of changes in business/ economic conditions on the agency company is evaluated and published regularly by the rating agency.

(iii) Stock - Broking

Prior to the setting up of SEBI, stock exchanges were being supervised by the Ministry of Finance under the Securities Contracts Regulation Act (SCRA) and were operating more or less self-regulatory organisations.

The need to reform stock exchanges was felt, when malpractices crept into Trading and in order to protect investor's interests, SEBI was set up to ensure that stock exchange perform their self - regulatory role properly. Since then, stock broking has emerged as a professional advisory service Stockbroker is a member of a recognised stock exchange who buys, sells or deals in shares/ securities. It is mandatory for each stockbroker to get him/ herself registered with SEBI order to act as a broker. SEBI is empowered to impose conditions while granting the certificate of registration.

FINANCIAL MARKET

It is through financial markets and institutions that the financial system of an economic works. Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bank deposits, bills, bonds etc. Financial market classified into two they are: (i) Money Market (ii)Capital Market

1. Money Market

Money market is a market for dealing with financial assets and securities which have a maturity period of upto one year. In other words, it is a market for purely short-term funds. The importance/functions of the money market are highlighted as under:

1. Economic development: The money market provides short term funds to both public and private institutions. These institutions need money to finance their capital needs. In other words, the money market assures supply of funds; the financing is done through discounting of the trade bills, commercial banks, acceptance houses, discount houses and brokers. In this way, the money market helps in the economic development by providing financial help to trade, commerce and industry. The businessmen take advantage by investing their cash in highly liquid assets to earn income and also to enjoy liquidity because these assets can be converted into cash without much difficulty.

2. Profitable investment: The commercial banks deal with the deposits of their customers. The banks are required to put their assets into cash form to meet the directions of the central bank on the one hand, while on the other, they have to put their excess reserves into productive channels to earn income on them. The aim of the commercial banks is to maximize profits. The excess reserves of the banks are invested in near money assets.

3.Borrowings by the government: The money market helps the government in borrowing short term funds at very low interest rates. The borrowing is done on the basis of treasury bills. But in case the government resorts to deficit financing or to print more currency or to short term funds at the money supply over and above the borrow from the central bank, it will merely raise Thus it is clear that the needs of the economy and hence the price level will boost up. Money market is very useful for the government since it meets its financial needs.

4. Importance for central bank: If the money market is well - developed, the central bank implements the monetary policy successfully. It is only through the money market that the central bank can control the banking system and thus contribute to the development of trade and commerce. The money market is very sensitive a change in one sub – market affects the other sub - markets immediately. It means the central bank can affect the whole money market by changing just one sub - market.

5. Mobilisation of funds: The money market helps in transferring funds from one sector to another. The development of any economy depends on availability of finance. No country can develop its trade, commerce and industry until and unless the financial resources are mobilized.

6. Savings and investment

The money market is that it helps in promoting liquidity and safety of financial assets. By doing so it can help in encouraging savings and investment. The saving and investment equilibrium of demand and supply of loanable funds helps the allocation of resources.

CAPITAL MARKET

The capital market is a market for financial assets which have a long or indefinite maturity. Generally, it deals with long term securities which have a maturity period of above one year.

FUNCTIONS OF CAPITAL MARKET '

The major functions performed by a capital/ security market are:

1. Helps in capital formation.

The capital market plays an important role in mobilisation of savings and channel them into productive investments for the development of commerce and industry. As such, the capital market helps in capital formation and economic growth of the country.

1. Act as link between savers and investors.

The capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds. The savers who do not spend all their income are called "Surplus units" and the borrowers are known as " deficit units. The capital market is the transmission mechanism between surplus units and deficit units. It is a conduit through which surplus unity lend their surplus funds to deficit units.

1. Helps in increasing national income.

Funds come into the capital market from individuals and financial intermediaries and are used by commerce, industry and government. It thus facilitates the transfer of funds to be used more productively and profitability to increases the national income.

1. Facilitates buying and selling.

Surplus units buy securities with their surplus funds and deficit wits ells securities to raise the funds they need. Funds flow from lenders to borrowers either directly or indirectly through financial institutions such as banks, unit trusts, mutual funds, etc. The borrowers issue primary securities which are purchased by lenders either directly or indirectly through financial institutions.

1. Channelizes funds from unproductive to productive resources.

The capital market provides a market mechanism for those who have savings and to those who need funds for productive investments. Its divers’ resources from wasteful and unproductive channels such as gold, jewellery, real estate, conspicuous consumption, etc, to productive investments

1. Minimises speculative activities.

It does so by providing capital to the needy al reasonable interest rates and helps in minimising speculative activities.

1. Brings stability in value of stocks.

A well - developed capital market comprising expert banking and non - banking intermediaries bring stability in the value of stocks and securities.

1. Promotes economic growth.

The capital market encourages economic growth. The various institutions which operate in the capital market give quantities and qualitative direction to the flow of funds and bring rational allocation of resources. They do so by converting financial assets into productive physical assets. This leads to the development of commerce and industry through the private and public sector, thereby inducing economic growth.

SECONDARY MARKET

Secondary market is a market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. Generally, such securities are quoted the Stock Exchange and it provides a continuous and regular market to buying and selling of securities. This market consists of all stock exchanges recognised by the Government of India. The stock exchanges in India are regulated under the Securities Contracts (Regulation) Act 1956. The Bombay Stock Exchange is the principal stock exchange in India which sets the tone of the other stock markets.

FUNCTIONS OF STOCK EXCHANGE

The stock exchanges play an important role in the economic development of a country.

The importance of stock exchange will be clear from the functions they perform and discussed: as follows: provide a place where shares and stock

1. Ensure Liquidity of Capital.

The stock exchanges where buyers and sellers are converted into cash. The exchanges provide a ready market. Had are always available and those who are in need of hard cash can sell their holdings this not been possible then many persons would have feared for blocking their savings in Securities as they cannot again convert them into cash.

2. Continuous Market for Securities.

The stock exchanges provide a ready market in securities. The securities once listed continue to be traded at the exchanges irrespective the fact that owners go on changing. The exchanges provide a regular market for trading in securities.

3. Mobilising Surplus Savings.

The stock exchanges provide a ready market for various securities. The investors do not have any difficulty in investing their savings by purchasing shares, bonds etc, from the exchanges. If this facility is not there then many persons who want to invest their savings will not find avenues to do so. In this way stock exchanges play an important role in mopping up surplus funds of investors.

1. Helpful in Raising New Capital.

The new and existing concerns need capital for their activities. The new concerns raise capital for the first time and existing units increase their capital for expansion and diversification purposes. The shares of new concerns are registered at stock exchanges and existing companies also sell their shares through brokers etc, at exchanges. The exchanges are helpful in raising capital both by nets old concerns.

1. Safety in Dealings.

The dealings at stock exchanges are governed by well - defined rules and regulations of Securities Contract (Regulation) Act, 1956. There is no scope manipulating transactions. Every contact is done according to the procedure laid down and there is no fear in the minds of contracting parties. The safety in dealings brings confidence in the minds of all concerned parties and helps in increasing various dealings.

1. Listing of Securities.

Only listed securities can be purchased at stock exchanges. Every company desirous of listing its securities will apply to the exchange authorities. The listing is allowed only after a critical examination of capital structure, management and prospects of the company. The listing of securities gives privilege to the company. The investors can form their own views about the securities because listing a security does not guarantee the financial stability of the company.

1. Smoothens the Price Movements.

A stock exchange smoothens the price movements of stocks in the market by ensuring a continuous flow of securities,

1. Investor Protection.

The stock exchange renders safeguarding activities for investors in securities. It provides a grievance redressal mechanism for investors. Stock exchanges also operate a compensation fund for the protection of investors.

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