INDIAN FINANCIAL SYSTEM AND FINANCIAL MARKET OPERATION

Finance:

Eminent economist walker defines 'finance' as " Money is what money does."

Samuelson defined, " Money is and artificial social convention."

According to wheeler, " Finance means activity which is concerned with the acquisition and conversion of capital funds in meeting the financial needs and overall objectives of business enterprise."

simply to say, finance refers to procurement, investment and management of financial resources in a scientific way for fulfillment of financial goals.

System:

According to Harold Koontz and Cyril O'Donnel, " A system is essentially a set or assemblage of things that are interconnected or inter-dependent so as to form a complex whole."

In the opinion of H. D. Maynard, " A system is a set of organised operations to satisfy a definable use requirement."

Financial System:

Van Horne defined financial system as the "purpose of financial markets is to allocate Savings efficiently in an economy to ultimate users either for investment in real asset or for comPensation."

According to Robinson, financial System is " To provide link between Savings and investment for the creation of new wealth."

Financial system

Fund Suppliers → Flow of Fund → Fund Seekers

Financial Assets

Importance of Financial System:

1. Barometer of Economic Development:
2. Mobilisation of Savings.
3. Investment.
4. Capital Formation.
5. Public confidence
6. Differen types of savings.
7. Social Securities.
8. Financial Assistance.
9. Technical Assistance.
10. Stability in foreign trade.
11. Reliable share market.
12. Proper management of public finance.

Functions of Financial System:

1. Savings Functions.
2. Liquidity Functions.
3. Payment Functions.
4. Risk Functions.
5. Policy Functions.
6. Capital Formation Functions.

Role of Financial System in Economic Development:

1. Increase in Gross Domestic Product and per capita Income.
2. Capital Formation.
3. Mobilisation of Financial Resources.
4. Increase of Savings
5. Sectorwise Economic Development.

Components of Financial System:

1. Financial Institutions
2. Financial Markets.
3. Financial Instruments
4. Financial Services
5. Financial Regulations

Asim Kr Roy

Financial markets in India:

1. Money Market
   i) organised.
   ii) unorganised.
2. capital market.
   i) Primary market.
   ii) secondary market.

Financial Services:

1. Fund-based or asset-based Services
2. Fee-based or advisory based Services.

Nature of Fund-based Services-

1) Lease-financing in India
2) Hire-purchase financing in India
3) Factoring in India
4) Bill Discounting
5) Housing financing
6) Insurance Services
7) venture Capital Financing.

Nature of Fee-based or Advisory-based services-

1) collection of fund
2) Project Planning
3) Loan arrangement
4) Lease financing
5) securities management
6) Asset acquirement.

Financial Market Regulators in India:

1. Ministry of Finance
2. Reserve Bank of India
3. Securities Exchange Board of India/SEBI
4. Company Law Board
5. Insurance Regulatory and Development Authority/IRDA

Asim Kr. Roy

Meaning of Bank

As per Dr. H. L. Hart, " A banker is one who in the ordinary course of his business, honours cheques drawn upon him persons from and for whom he receives money."

According to Crowther, " A banker is a dealer in debts, his own and of others."

Indian Banking System

The Reserve Bank of India (RBI) is the central bank of our country. Other banks are classified into (a) scheduled banks, and (b) non-scheduled banks. Scheduled banks are registered with the RBI and these banks have to follow the rules and regulations of RBI and the Banking Regulation Act of our country.

Scheduled commercial banks and scheduled cooperative banks are the two segments of scheduled banks.

Scheduled commercial bank comprises of Public Bank, Private Bank, Foreign Bank, Regional Rural Bank.

Scheduled cooperative bank comprises of scheduled urban cooperative bank and scheduled state cooperative bank.

Central Bank

As per W. A. Shaw, central bank is the controller of credit.

As per Hawtrey, central bank is the lender of the last resort.

As per Samuelson, central bank is the bank of other banks, which controls monetary base and High Powered Money and thereby controls supply of money to the society.

Functions of Central Bank

1. Maintenance of Cash Reserve Fund of the commercial bank.
2. Issue of Note
3. Function as a Govt. Banker
4. Function as a banker of commercial banks.
5. Credit control. 6. Development work. 7. Maintain Gold and Foreign Exchange Reserve. 8. Publication of Economic Information.

Asim Kr. Roy

Money Market ANNEXURE-2B

Money market is the centre for dealings, mainly for short term character, in monetary assets. It provides the short term requirements with the minimum delay at minimum cost.

Functions of Money Market

1. Satisfy the need for short term capital.
2. Proper utilisation of Liquid assets.
3. Inspires in Savings. 4. Credit creation.
5. Helps capital market. 6. Helps trade settlement.
7. Underwriting Functions. 8. Helps to make monetary Policy.

Capital Market

It is the market for long-term funds which is distinct from money market. Capital market is not one institution but all those institutions that canalise the supply and demand for long-term capital.

Functions of Capital Market

1. Helps Establishment and Expansion of Industry and commerce.
2. Arranges Long-term loan. 3. Capital Formation.
4. Underwriting Functions. 5. Motivation to Savings
6. Mobility of Savings 7. Helps to National Growth.
8. Honest Advice to Investors.

Share Market

Share market is that market where share, stock and debenture of different private and public companies are traded.

Primary Market

Primary market is that market where new issue of shares and debentures are traded.

Share Market or Secondary Market

It is that market where old shares and debentures of Govt. and non-Govt. companies are traded.

Stock Index

Valuation of Prices of some sample of shares of a share market is called stock Index.

Credit Rating

Statistically determination of quality and rate of some selected Securities is known as credit rating. It is necessary to understand the risk of investment in securities.

Asim Kr. Roy