



FINANCIAL MARKET INSTITUTION

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BY

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Preface

It gives us immense pleasure to bring out the book , "Financial Market Institution", for B. Com, M. Com and MBA students. The book is thoroughly written in the framework for all Indian universities. In preparing this edition we have made every effort to explain the main concepts of the subject in a simple and lucid style. The matter has been presented in a precise manner.

In writing this book and bringing out, we have constantly kept in mind the expectations and requirements of the students and the practicing managers of today. We have taken great care and effort to explain the contents from the point of view of students understanding. All the important concepts of Financial Market have been explained in simple terms.

We have confident that this book will receive appreciation from the readers. We always welcome their suggestions to make this book more useful.

Dr. Farhina Sardar Khan

Prof. Syed Shahid Mazhar

Acknowledgement

We feel great pleasure in presenting the first edition of the Financial Market Institution book. At the outset, we would like to state that this attempt would not have been successful without the direct and indirect help of many around us.

In preparation for this book, we appreciate the help and assistance of my friends and students. Their valuable suggestion and guidance have helped us in bringing such a nice book.

We are extremely thankful to Taran publication House for putting their sincere effort in bringing out this book in an excellent form and in time.

Last but not least we thank our parents and well-wishers who have been a constant motivation behind the work. We once again express our heartfelt thanks to all who supported this book.

Dr. Farhina Sardar Khan

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1

NATURE OF FINANCIAL SYSTEM AND MARKETS

1.1 INTRODUCTION

The importance of financial systems to capital formation cannot be overstated. It is widely accepted in academic literature that sufficient capital formation is necessary for rapid economic growth. The fundamental role of the financial system is to gather savings and distribute them for industrial investment, which in turn encourages capital formation and speeds up the rate of economic growth. Three distinct yet connected actions are involved in capital formation:

Savings: The capacity to set aside claims on resources to make them accessible for other uses.

Finance is the process by which claims to resources are either put together from those freed up by local savings, acquired from abroad, or mainly produced, typically as bank deposits or notes and then placed in the hands of the investors.

1.2 FINANCIAL SYSTEM CONCEPT

The effective mobilisation of savings, the effectiveness of the financial organisation/system, and the channelisation of these savings into the most desirable and productive forms of investment are all interconnected and have a significant bearing on capital formation and economic development. Their relevance to the saving-investment process is derived from the fact that the volume of capital formation depends on the intensity and efficiency with which these activities are carried on.

Transfer Process: The separation between investments, which represent spending on durable assets, and savings, defined as the excess of current income over current expenditure, is the origin of the financial system. Goldsmith has divided the various economic units into three categories:

1. Units with a saving surplus are those whose savings exceed their investments.

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