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FINANCIAL MARKETS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the meaning of Financial Market;
- explain the meaning of Money Market and describe its major Instruments;
- explain the nature and types of Capital Market;
- distinguish between Money Market and Capital Market;
- explain the meaning and functions of Stock Exchange;
- describe the functioning of NSEI and OTCEI; and
- describe the role of SEBI in investor protection.

SENSEX — THE BOMBAY STOCK EXCHANGE SENSITIVE INDEX

Have you counted the number of times newspaper headlines in the past few weeks have been discussing the SENSEX? It goes up and down all the time and seems to be a very important part of business and economic news. Has that made you wonder what the SENSEX actually is?

The SENSEX is the benchmark index of the BSE. Since the BSE has been the leading exchange of the Indian secondary market, the SENSEX has been an important indicator of the Indian stock market. It is the most frequently used indicator while reporting on the state of the market. An index has just one job: to capture the price movement. So a stock index will reflect the price movements of shares while a bond index captures the manner in which bond prices go up or down. If the SENSEX rises, it indicates the market is doing well. Since stocks are supposed to reflect what companies expect to earn in the future, a rising index indicates that investors expect better earnings from companies. It is also a measure of the state of the Indian economy. If Indian companies are expected to do well, obviously the economy should do well too.

The SENSEX, launched in 1986 is made up of 30 of the most actively traded stocks in the market. In fact, they account for half the BSE's market capitalisation. They represent 13 sectors of the economy and are leaders in their respective industries.

INTRODUCTION

You all know that a business needs finance from the time an entrepreneur makes the decision to start it. It needs finance both for working capital requirements such as payments for raw materials and salaries to its employees, and fixed capital expenditure such as the purchase of machinery or building or to expand its production capacity. The above example gives a fair picture of how companies need to raise funds from the capital markets. Idea Cellular decided to enter the Indian capital market for its needs of expansion. In this chapter you will study concepts like private placement, Initial public Offer (IPO) and capital markets which you come across in the example of Idea Cellular. Business can raise these funds from various sources and in different ways through financial markets. This chapter provides a brief description of the mechanism through which finances are mobilised by a business organisation for both short term and long term requirements. It also explains the institutional structure and the regulatory measures for different financial markets.

CONCEPT OF FINANCIAL MARKET

A business is a part of an economic system that consists of two main

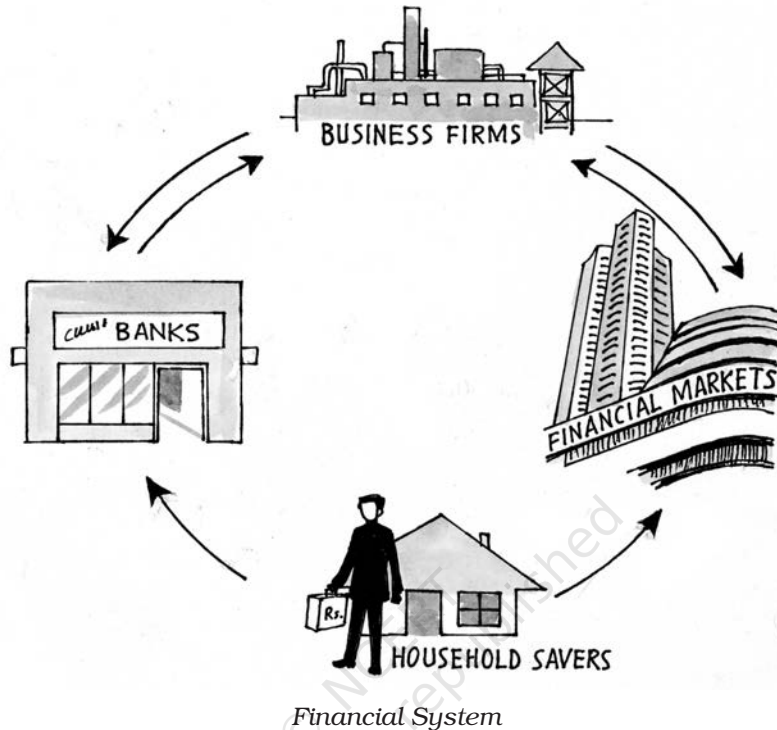
sectors – households which save funds and business firms which invest these funds. A financial market helps to link the savers and the investors by mobilizing funds between them. In doing so it performs what is known as an allocative function. It allocates or directs funds available for investment into their most productive investment opportunity. When the allocative function is performed well, two consequences follow:

- The rate of return offered to households would be higher
- Scarce resources are allocated to those firms which have the highest productivity for the economy.

There are two major alternative mechanisms through which allocation of funds can be done: via banks or via financial markets. Households can deposit their surplus funds with banks, who in turn could lend these funds to business firms. Alternately, households can buy the shares and debentures offered by a business using financial markets. The process by which allocation of funds is done is called financial intermediation. Banks and financial markets are competing intermediaries in the financial system, and give households a choice of where they want to place their savings.

A financial market is a market for the creation and exchange of





financial assets. Financial markets exist wherever a financial transaction occurs. Financial transactions could be in the form of creation of financial assets such as the initial issue of shares and debentures by a firm or the purchase and sale of existing financial assets like equity shares, debentures and bonds.

FUNCTIONS OF FINANCIAL MARKET

Financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions.

1. Mobilisation of Savings and Channeling them into the most

Productive Uses: A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelise surplus funds into the most productive use.

2. Facilitating Price Discovery: You all know that the forces of demand and supply help to establish a price for a commodity or service in the market. In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.

3. Providing Liquidity to Financial

Assets: Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required. Holders of assets can readily sell their financial assets through the mechanism of the financial market.

4.Reducing the Cost of Transactions:

Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other. The financial market is thus, a common platform where buyers and sellers can meet for fulfillment of their individual needs.

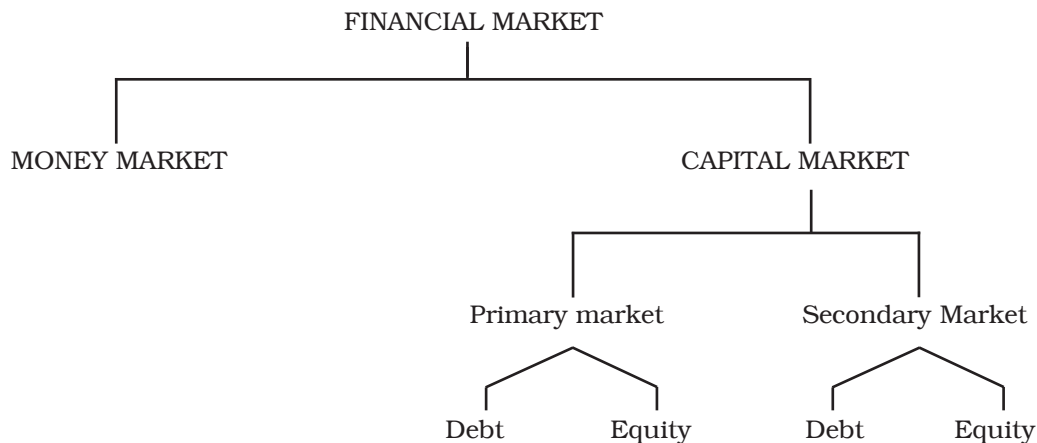
Financial markets are classified on the basis of the maturity of financial instruments traded in them. Instruments with a maturity of less

than one year are traded in the money market. Instruments with longer maturity are traded in the capital market.

MONEY MARKET

The money market is a market for short term funds which deals in monetary assets whose period of maturity is upto one year. These assets are close substitutes for money. It is a market where low risk, unsecured and short term debt instruments that are highly liquid are issued and actively traded everyday. It has no physical location, but is an activity conducted over the telephone and through the internet. It enables the raising of short-term funds for meeting the temporary shortages of cash and obligations and the temporary deployment of excess funds for earning returns. The major participants in the market are the Reserve Bank of India (RBI), Commercial Banks, Non-Banking Finance Companies, State Governments, Large Corporate Houses and Mutual Funds.

Classification of Financial Markets



CAPITAL MARKET

The term capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general. It directs these savings into their most productive use leading to growth and development of the economy. The capital market consists of development banks, commercial banks and stock exchanges.

An ideal capital market is one where finance is available at reasonable cost. The process of economic development is facilitated by the existence of a well functioning capital market. In fact, development of the financial system is seen as a necessary condition for economic growth. It is essential that financial institutions are sufficiently developed and that market operations are free, fair, competitive and transparent. The capital market should also be efficient in respect of the information that it delivers, minimise transaction costs and allocate capital most productively.

The Capital Market can be divided into two parts: a. Primary Market
b. Secondary Market

Distinction between Capital Market and Money Market

The major points of distinction between the two markets are as follows:

- (i) *Participants*: The participants in the capital market are financial institutions, banks, corporate entities, foreign investors and ordinary retail investors from members of the public. Participation in the money market is by and large undertaken by institutional participants such as the RBI, banks, financial institutions and finance companies. Individual investors although permitted to transact in the secondary money market, do not normally do so.
- (ii) *Instruments*: The main instruments traded in the capital market are – equity shares, debentures, bonds, preference shares etc. The main instruments traded in the money market are short term debt instruments such as T-bills, trade bills reports, commercial paper and certificates of deposit.
- (iii) *Investment Outlay*: Investment in the capital market i.e. securities does not necessarily require a huge financial outlay. The value of units of securities is generally low i.e. Rs 10, Rs 100 and so is the case with minimum trading lot of shares which is kept small i.e. 5, 50, 100 or so. This helps individuals with small savings to subscribe to these securities. In the money market, transactions entail huge sums of money as the instruments are quite expensive.
- (iv) *Duration*: The capital market deals in medium and long term securities such as equity shares and debentures. Money market instruments have a maximum tenure of one year, and may even be issued for a single day.
- (v) *Liquidity*: Capital market securities are considered liquid investments because they are marketable on the stock exchanges. However, a share may not be actively traded, i.e. it may not easily find a buyer. Money market instruments on the other hand, enjoy a higher degree of liquidity as there is formal arrangement for this. The Discount Finance House of India (DFHI) has been established for the specific objective of providing a ready market for money market instruments.
- (vi) *Safety*: Capital market instruments are riskier both with respect to returns and principal repayment. Issuing companies may fail to perform as per projections and promoters may defraud investors. But the money market is generally much safer with a minimum risk of default. This is due to the shorter duration of investing and also to financial soundness of the issuers, which primarily are the government, banks and highly rated companies.

(vii) *Expected return*: The investment in capital markets generally yield a higher return for investors than the money markets. The possibility of earnings is higher if the securities are held for a longer duration. First, there is the scope of earning capital gains in equity share. Second, in the long run, the prosperity of a company is shared by shareholders by way of high dividends and bonus issues.

PRIMARY MARKET

The primary market is also known as the new issues market. It deals with new securities being issued for the first time. The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals.

A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans and deposits. Funds raised may be for setting up new projects, expansion, diversification, modernisation of existing projects, mergers and takeovers etc.

SECONDARY MARKET

The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelising funds towards the most productive

PRIMARY AND SECONDARY MARKETS — A COMPARISON

<i>Primary Market (New Issue Market)</i>	<i>Secondary Market (Stock Exchange)</i>
(i) There is sale of securities by new companies or further (new issues of securities by existing companies to investors).	(i) There is trading of existing shares only.
(ii) Securities are sold by the company to the investor directly (or through an intermediary).	(ii) Ownership of existing securities is exchanged between investors. The company is not involved at all.
(iii) The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation.	(iii) Enhances encashability (liquidity) of shares, i.e. the secondary market indirectly promotes capital formation.
(iv) Only buying of securities takes place in the primary market, securities cannot be sold there.	(iv) Both the buying and the selling of securities can take place on the stock exchange.
(v) Prices are determined and decided by the management of the company.	(v) Prices are determined by demand and supply for the security.
(vi) There is no fixed geographical location.	(vi) Located at specified places.

investments through the process of disinvestment and reinvestment. Securities are traded, cleared and settled within the regulatory framework prescribed by SEBI. Advances in information technology have made trading through stock exchanges accessible from anywhere in the country through trading terminals. Along with the growth of the primary market in the country, the secondary market has also grown significantly during the last ten years.

STOCK EXCHANGE

A stock exchange is an institution which provides a platform for buying and selling of existing securities. As a market, the stock exchange facilitates the exchange of a security (share, debenture etc.) into money and vice versa. Stock exchanges help companies raise finance, provide liquidity and safety of investment to the investors and enhance the credit worthiness of individual companies.

Meaning of Stock Exchange

According to Securities Contracts (Regulation) Act 1956, stock exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

Functions of a Stock Exchange

The efficient functioning of a stock exchange creates a conducive climate

for an active and growing primary market for new issues. An active and healthy secondary market in existing securities leads to positive environment among investors. The following are some of the important functions of a stock exchange.



Bombay Stock Exchange

1. Providing Liquidity and Marketability to Existing Securities:

The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market.

2. Pricing of Securities:

Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.

3. Safety of Transaction: The membership of a stock exchange is well-regulated and its dealings are well-defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.

4. Contributes to Economic Growth: A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.

5. Spreading of Equity Cult: The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

6. Providing Scope for Speculation: The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

TRADING AND SETTLEMENT PROCEDURE

Trading in securities is now executed through an on-line, screen-based electronic trading system. Simply put, all buying and selling of shares and debentures are done through a computer terminal.

There was a time when in the open outcry system, securities were bought and sold on the floor of the stock exchange. Under this auction system, deals were struck among brokers, prices were shouted out and the shares sold to the highest bidder. However, now almost all exchanges have gone electronic and trading is done in the broker's office through a computer terminal. A stock exchange has its main computer system with many terminals spread across the country. Trading in securities is done through brokers who are members of the stock exchange. Trading has shifted from the stock market floor to the brokers office.

Every broker has to have access to a computer terminal that is connected to the main stock exchange. In this screen-based trading, a member logs on to the site and any information about the shares (company, member, etc.) he wishes to buy or sell and the price is fed into the computer. The software is so designed that the transaction will be executed when a matching order is found from a counter party. The whole transaction is carried on the computer screen with both the parties being able to see the prices of all shares going up and down at all times during the time that business is transacted and during business hours of the stock exchange. The computer in the brokers office is constantly matching the orders at the best bid and offer price. Those that are not matched remain on the screen and are open for future matching during the day.



Electronic Trading System

Electronic trading systems or screen-based trading has certain advantages:

1. It ensures transparency as it allows participants to see the prices of all securities in the market while business is being transacted. They are able to see the full market during real time.
2. It increases efficiency of information being passed on, thus helping in fixing prices efficiently. The computer screens display information on prices and also capital market developments that influence share prices.
3. It increases the efficiency of operations, since there is reduction in time, cost and risk of error.
4. People from all over the country and even abroad who wish to participate in the stock market can buy or sell securities through brokers or members without knowing each other. That is, they

can sit in the broker's office, log on to the computer at the same time and buy or sell securities. This system has enabled a large number of participants to trade with each other, thereby improving the liquidity of the market.

5. A single trading platform has been provided as business is transacted at the same time in all the trading centres. Thus, all the trading centres spread all over the country have been brought onto one trading platform, i.e., the stock exchange, on the computer.

Now, screen-based trading or on-line trading is the only way in which you can buy or sell shares. Shares can be held either in physical form or an electronic book entry form of holding and transferring shares can also be adopted. This electronic form is called dematerialised form.

The following steps are involved in the screen-based trading for buying and selling of securities:

1. If an investor wishes to buy or sell any security he has to first approach a registered broker or sub-broker and enter into an agreement with him. The investor has to sign a broker-client agreement and a client registration form before placing an order to buy or sell securities. He has also to provide certain other details and information. These include:
 - PAN number
(This is mandatory)
 - Date of birth and address.

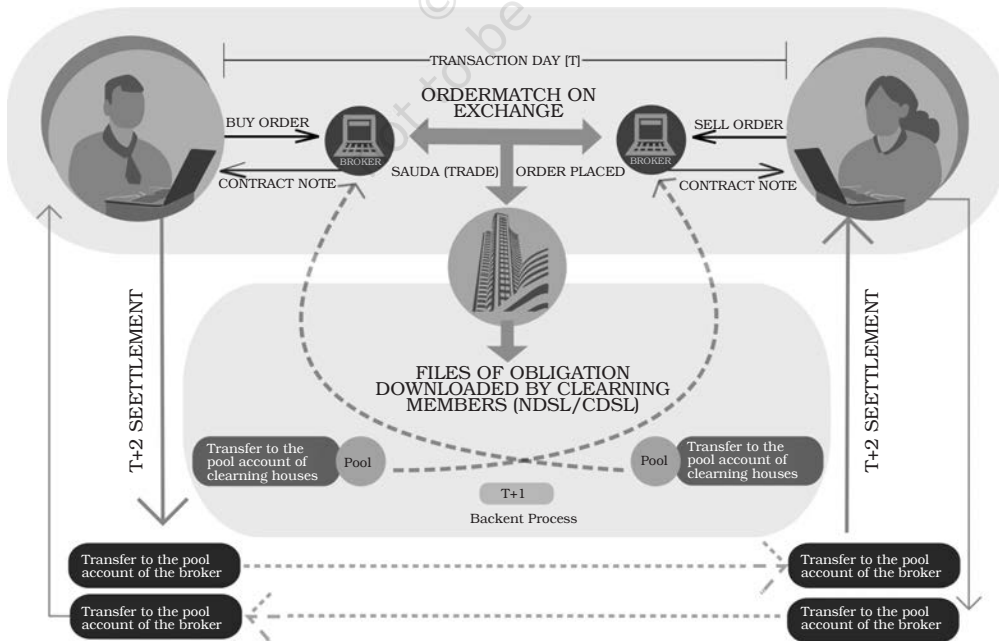
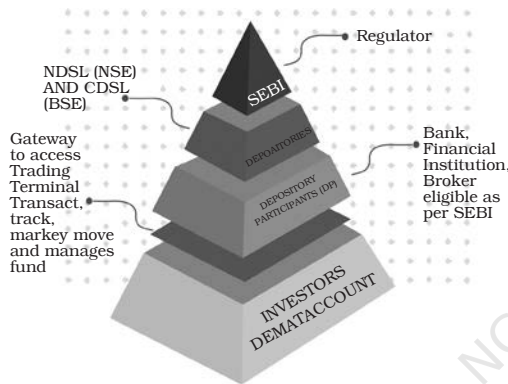
- Educational qualification and occupation.
- Residential status (Indian/ NRI).
- Bank account details.
- Depository account details.
- Name of any other broker with whom registered.

- Client code number in the client registration form.

The broker then opens a trading account in the name of the investor.

2.The investor has to open a 'demat' account or 'beneficial owner' (BO) account with a depository participant (DP) for holding and transferring securities in the demat form. He will also have to open a bank account for cash transactions in the securities market.

3.The investor then places an order with the broker to buy or sell shares. Clear instructions have to be given about the number of shares and the price at which the shares should be bought or sold. The broker will then go ahead with



the deal at the above mentioned price or the best price available. An order confirmation slip is issued to the investor by the broker.

4. The broker then will go on-line and connect to the main stock exchange and match the share and best price available.
5. When the shares can be bought or sold at the price mentioned, it will be communicated to the broker's terminal and the order will be executed electronically. The broker will issue a trade confirmation slip to the investor.
6. After the trade has been executed, within 24 hours the broker issues a Contract Note. This note contains details of the number of shares bought or sold, the price, the date and time of deal, and the brokerage charges. This is an important document as it is legally enforceable and helps to settle disputes/claims between the investor and the broker. A Unique Order Code number is assigned to each transaction by the stock exchange and is printed on the contract note.
7. Now, the investor has to deliver the shares sold or pay cash for the shares bought. This is called the pay-in day.
8. Cash is paid or securities are delivered on pay-in day, which is before the T+2 day as the deal has to be settled and finalised on the T+2 day. The settlement cycle is on T+2 day on a rolling settlement basis, w.e.f. 1 April 2003.
9. On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the pay-out day. The broker then has to make payment to the investor within 24 hours of the pay-out day since he has already received payment from the exchange.
10. The broker can make delivery of shares in demat form directly to the investor's demat account. The investor has to give details of his demat account and instruct his depository participant to take delivery of securities directly in his beneficial owner account.

Project Work

1. Study the website of Bombay Stock Exchange, i.e., www.bseindia.com and compile information which you find useful. Discuss it in your class and find out how it can help you should you decide to invest in the stock market. Prepare a report on your findings with the help of your teacher.
2. Prepare a report on the role of SEBI in regulating the Indian stock market. You can get this information on its website namely www.sebi.gov.in. Do you think something else should be done to increase the number of investors in the stock market?

Dematerialisation and Depositories

All trading in securities is now done through computer terminals. Since all systems are computerised, buying and selling of securities are settled through an electronic book entry form. This is mainly done to eliminate problems like theft, fake/forged transfers, transfer delays and paperwork associated with share certificates or debentures held in physical form.

This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that she/he can hold it as an electronic balance in an account. This process of holding securities in an electronic form is called dematerialisation. For this, the investor has to open a demat account with an organisation called a depository. In fact, now all Initial Public Offers (IPOs) are issued in dematerialisation form and more than 99% of the turnover is settled by delivery in the demat form.

The Securities and Exchange Board of India (SEBI) has made it mandatory for the settlement procedures to take place in demat form in certain select securities. Holding shares in demat form is very convenient as it is just like a bank account. Physical shares can be converted into electronic form or electronic holdings can be reconverted into physical certificates (rematerialisation). Dematerialisation enables shares to be transferred to some other account just like cash and ensures settlement of all trades

through a single account in shares. These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates. It is the broker's responsibility to credit the investor's account with the correct number of shares.

Working of the Demat System

1. A depository participant (DP), either a bank, broker, or financial services company, may be identified.
2. An account opening form and documentation (PAN card details, photograph, power of attorney) may be completed.
3. The physical certificate is to be given to the DP along with a dematerialisation request form.
4. If shares are applied in a public offer, simple details of DP and demat account are to be given and the shares on allotment would automatically be credited to the demat account.
5. If shares are to be sold through a broker, the DP is to be instructed to debit the account with the number of shares.
6. The broker then gives instruction to his DP for delivery of the shares to the stock exchange.
7. The broker then receives payment and pay the person for the shares sold.
8. All these transactions are to be completed within 2 days, i.e., delivery of shares and payment

received from the buyer is on a T+2 basis, settlement period.

Depository

Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/sold at any time and instruction to deliver or receive shares on behalf of the investor can be given. It is a technology driven electronic storage system. It has no paper work relating to share certificates, transfer, forms, etc. All transactions of the investors are settled with greater speed, efficiency and use as all securities are entered in a book entry mode.

In India, there are two depositories. National Securities Depository Limited (NSDL) is the first and largest depository presently operational in India. It was promoted as a joint venture of the IDBI, UN, and the National Stock Exchange.

The Central Depository Services Limited (CDSL) is the second depository to commence operations and was promoted by the Bombay Stock Exchange and the Bank of India. Both these national level depositories operate through intermediaries who are electronically connected to the depository and serve as contact points with the investors and are called depository participants.

The depository participant (DP) serves as an intermediary between the

investor and the Depository (NSDL or CSDL) who is authorised to maintain the accounts of dematerialised shares. Financial institutions, banks, clearing corporations, stock brokers and non-banking finance corporations are permitted to become depository participants. If the investor is buying and selling the securities through the broker or the bank or a non-banking finance corporation, it acts as a DP for the investor and complete the formalities.

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SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

The Securities and Exchange Board of India was established by the Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was to function under the overall administrative control of the Ministry of Finance of the Government of India. The SEBI was given a statutory status on 30 January 1992 through an ordinance. The ordinance was later replaced by an Act of Parliament known as the Securities and Exchange Board of India Act, 1992.

Reasons for the Establishment of SEBI

The capital market has witnessed a tremendous growth during 1980's, characterised particularly by the increasing participation of the public. This ever expanding investors population and market capitalisation led to a variety of malpractices on the part of companies, brokers, merchant bankers, investment consultants and others involved in the securities market. The glaring examples of these malpractices include existence of self-styled merchant bankers unofficial private placements, rigging of prices, unofficial premium on new issues, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges and listing requirements, delay in delivery of shares etc. These malpractices and unfair trading practices have eroded investor confidence and multiplied investor grievances. The Government and the stock exchanges were rather helpless in redressing the investor's problems because of lack of proper penal provisions in the existing legislation. In view of the above, the Government of India decided to set-up a separate regulatory body known as Securities and Exchange Board of India.

Purpose and Role of SEBI

The basic purpose of SEBI is to create an environment to facilitate efficient mobilisation and allocation of resources through the securities

markets. It also aims to stimulate competition and encourage innovation. This environment includes rules and regulations, institutions and their interrelationships, instruments, practices, infrastructure and policy framework.

This environment aims at meeting the needs of the three groups which basically constitute the market, viz, the issuers of securities (Companies), the investors and the market intermediaries.

- To the issuers, it aims to provide a market place in which they can confidently look forward to raising finances they need in an easy, fair and efficient manner.
- To the investors, it should provide protection of their rights and interests through adequate, accurate and authentic information and disclosure of information on a continuous basis.
- To the intermediaries, it should offer a competitive, professionalised and expanding market with adequate and efficient infrastructure so that they are able to render better service to the investors and issuers.

Objectives of SEBI

The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. This may be elaborated as follows:

- 1.To regulate stock exchanges and the securities industry to promote their orderly functioning.
- 2.To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
- 3.To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
- 4.To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

Functions of SEBI

Keeping in mind the emerging nature of the securities market in India, SEBI was entrusted with the twin task of both regulation and development of the securities market. It also has certain protective functions.

Regulatory Functions

- 1.Registration of brokers and sub-brokers and other players in the market.
- 2.Registration of collective investment schemes and Mutual Funds.
- 3.Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
- 4.Regulation of takeover bids by companies.
- 5.Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.

6. Levying fee or other charges for carrying out the purposes of the Act.
7. Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

Development Functions

1. Training of intermediaries of the securities market.
2. Conducting research and publishing information useful to all market participants.
3. Undertaking measures to develop the capital markets by adapting a flexible approach.

Protective Functions

1. Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
2. Controlling insider trading and imposing penalties for such practices.
3. Undertaking steps for investor protection.
4. Promotion of fair practices and code of conduct in securities market.

KEY TERMS

Financial Market	Money Market	Treasury Bills
Commercial Paper	Call Money	Certificate of Deposit
Commercial Bill	Money Market	Mutual Fund Capital
Market	Primary Market	Secondary Market
Stock Exchange	SEBI, NSE	OTCEI

SUMMARY

Financial Market is a market for creation and exchange of financial assets. It helps in mobilisation and channelling the savings into most productive uses. Financial markets also help in price discovery and provide liquidity to financial assets.

Money Market is a market for short-term funds. It deals in monetary assets whose period of maturity is less than one year. The instruments of money market include treasury bills, commercial paper, call money, Certificate of deposit, commercial bills, participation certificates and money market mutual funds.

Capital Market is a place where long-term funds are mobilised by the corporate undertakings and Government. Capital Market may be divided into primary market and secondary market. Primary market deals with new securities which were not previously tradable to the public. Secondary market is a place where existing securities are bought and sold.

Stock Exchanges are the organisations which provide a platform for buying and selling of existing securities. Stock exchanges provide continuous market for securities, help in price discovery, widening share ownership and provide scope for speculation.

Securities and Exchange Board of India was established in 1988 and was given statutory status through an Act in 1992. The SEBI was set-up to protect the interests of investors, development and regulation of securities market.

EXERCISES

Very Short Answer Type

1. What is a Treasury Bill?
2. Name the segments of the National Stock Exchange (NSE).
3. State any two reasons why investing public can expect a safe and fair deal in the stock market. (Point w.r.t safety of Transactions – Functions of the Stock Exchange).
4. What is the common name for Beneficiary Owner Account, which is to be opened by the investors for trading in securities?
5. Name any two details that need to be provided by the investor to the broker while filling a client registration form.

Short Answer Type

1. What are the functions of Financial Market?
2. “Money Market is essentially a Market for short term funds.” Discuss.
3. Distinguish between Capital Market and Money Market.
4. What are the functions of the Stock Exchange?
5. What are the objectives of SEBI?
6. State the objective of NSE?
7. Name the document prepared in the process of online trading of securities that is legally enforceable and helps to settle disputes/claims between the investor and the broker.

Long Answer Type

1. Explain the various Money Market instruments.
2. Explain the recent Capital Market reforms in India.
3. Explain the objectives and functions of the SEBI.
4. India’s largest domestic investor Life Insurance Corporation of India has once again come to government’s rescue by subscribing 70% of Hindustan Aeronautics’ ₹4,200-crore initial public offering.
 - a. Which market is being reflected in the above case?
 - b. State which method of floatation in the above identified market is being highlighted in the case? (Primary Market)

- c. Explain any two other methods of floatation. (Private Placement, Offer through prospectus, offer for sale).
5. Lalita wants to buy shares of Akbar Enterprises, through her broker Kushvinder. She has a Demat Account and a bank account for cash transactions in the securities market. Discuss the subsequent steps involved in the screen-based trading for buying and selling of securities in this case.

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CLASS XII

*Supplementary
Reading Material
in Business Studies*

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UNIT: PLANNING

PLAN

A plan is a specific action proposed to help the organization achieve its objectives. It is a document that outlines how goals are going to be met. The importance of developing Plans is evident from the fact that there may be more than one means of reaching a particular goal. So with the help of logical plans, objectives of an organization could be achieved easily.

SINGLE USE PLANS

Single use plans apply to activities that do not recur or repeat. Single use plan is one time plan specifically designed to achieve particular goal that, once achieved will not recur in the future. Such Plan is developed to meet the needs of a unique situation. The length of a single-use plan differs greatly depending on the project in question, as a single event plan may only last one day while a single project may last weeks or months.

STANDING PLANS - KNOWN AS REPEAT USE PLANS

Standing plans are used over and over again because they focus on organizational situations that occur repeatedly. They are usually made once and retain their value over a period of years while undergoing revisions and updates. That is why they are also called repeated use plans.

OBJECTIVES, STRATEGY, POLICY, PROCEDURE, METHOD, RULE, BUDGET AND PROGRAMME (Please look up NCERT book for them)

UNIT: STAFFING

INDUCTION TRAINING

Induction training is a type of training given to help a new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days.

UNIT: DIRECTING

STYLES OF LEADERSHIP

Leadership styles refer to a leader's behaviour. Behavioural pattern which the leader reflects in his role as a leader is often described as the style of leadership.

A Leadership style is the result of the leader's philosophy, personality, and experience and value system. It also depends upon the type of followers and the atmosphere prevailing in the organization.

Different types of leadership style are:

1. Autocratic leadership
2. Participative leadership - Democratic
3. Free rein leadership - Laissez Faire

A leader may use all styles over a period of time but one style tends to predominate as his normal way of using power.

Example Mr. Ulhas, CEO of I Create India, distributes the work for the month. He delegates the work to his staff Ms. Ranju, Ms. Anjana, Ms. Geeta and Mr. Dinesh as per his discretion.

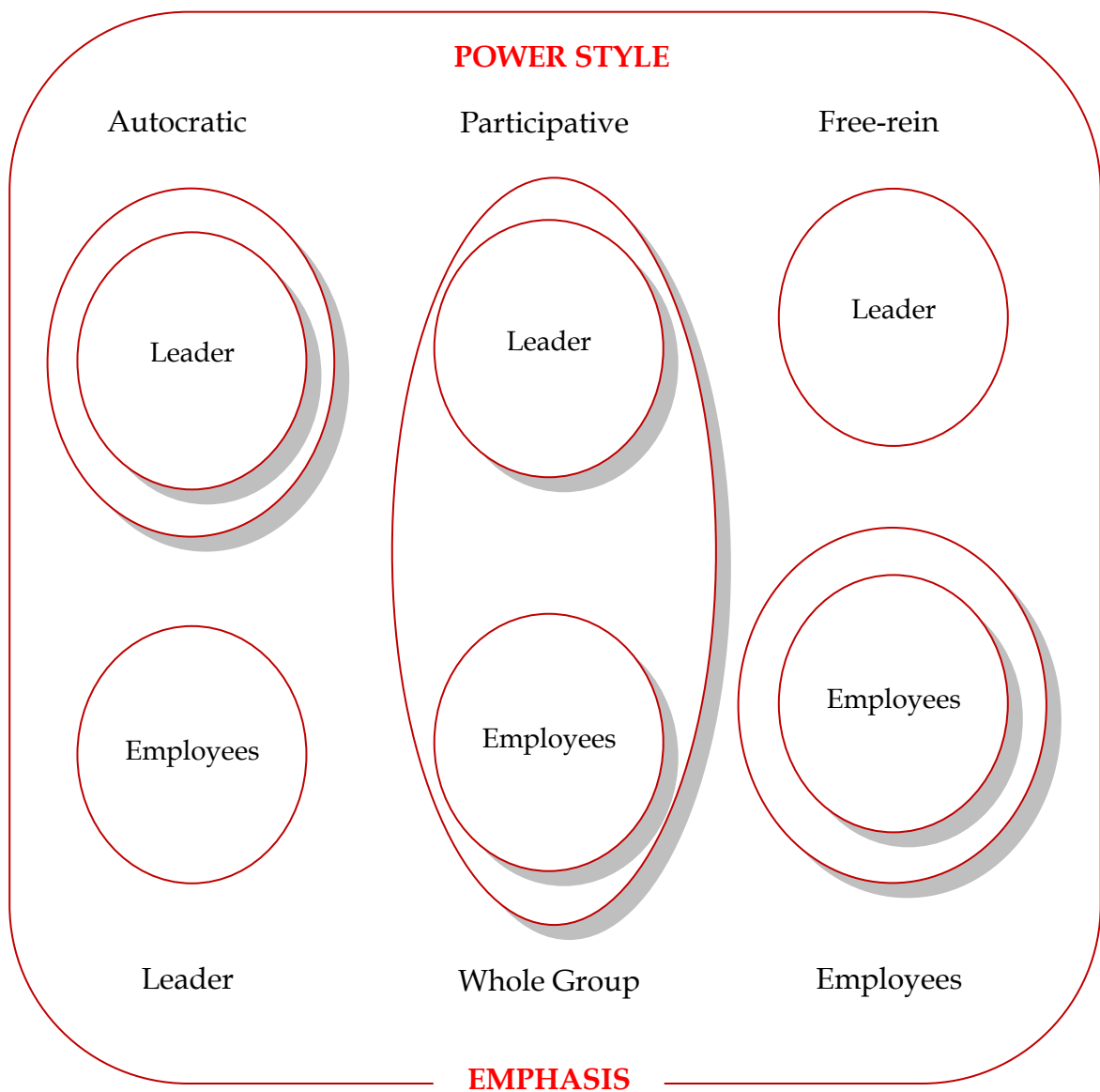
(Mr. Ulhas is behaving as an autocratic leader)

Mr. Ulhas has realized that due to absence of Ms. Geeta, the work will not get over as scheduled. He discusses with his staff members to meet the dead line. Everybody decided to do over time and planned to stay back accordingly.

(Mr. Ulhas is behaving as a democratic leader)

The staff plans to organize a party in honor of Ms. Geeta as she got promoted. Mr. Ulhas asks the other members of staff to fix the venue and the menu for the occasion.

(Mr. Ulhas is behaving as a free rein leader)



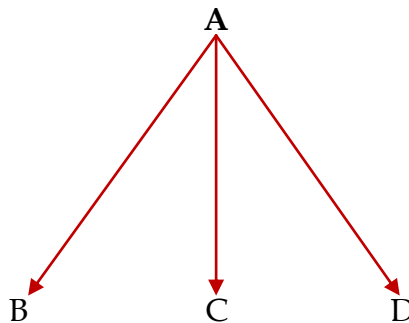
AUTOCRATIC OR AUTHORITARIAN LEADER

An autocratic leader gives orders and insists that they are obeyed. He determines the policies for the group without consulting them.

He does not give information about future plans but simply tells the group what immediate steps they must take.

Under this style, all decision making power is centralized in the leader as shown in the diagram. He does not give the subordinates any freedom to influence his decision.

It is like “bossing people around.” This style should normally be used on rare occasions.



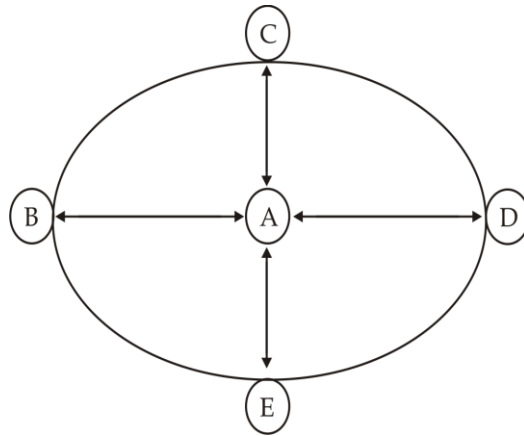
A is the leader - Boss - Centered - Leadership

PARTICIPATIVE OR DEMOCRATIC LEADER

A democratic leader gives order only after consulting the group and works out the policies with the acceptance of the group.

He never asks people to do things without working out the long term plans on which they are working. He favours decision making by the group as shown in the diagram. This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale.

Using this style is of mutual benefit - it allows them (subordinates) to become part of the team and helps leaders (seniors) to make better decisions.



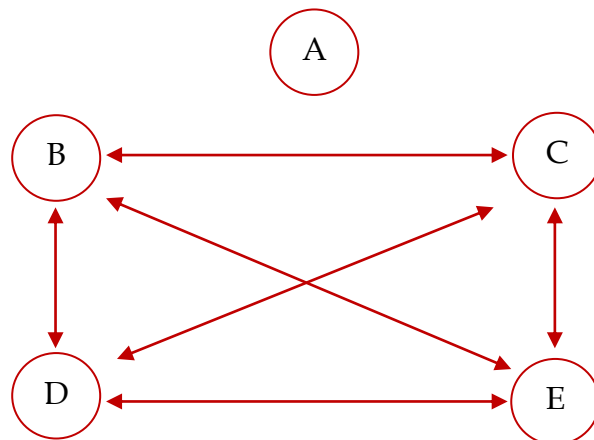
A is the leader - Group Centered - Leadership

FREE REIN OR LAISSEZ FAIRE LEADER

A free rein leader gives complete **freedom to the subordinates**. Such a **leader avoids use of power**. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence.

The leader exists as a contact man with the outsiders to bring information and the **resources the group requires for accomplishing the job**.

NOTE: This is also known as laissez faire which means no interference in the affairs of others. [French: laissez means to let / allow and faire means to do.]



*A is the leader
Leadership is Subordinate - Centered - Leadership*

UNIT: CONTROLLING

NATURE OF CONTROLLING

1. Controlling is a goal oriented function.
2. Controlling is an all pervasive (Top, middle and Operational Level) function.
3. Controlling is both a backward looking as well as forward looking function.
4. Controlling is a continuous function.

UNIT: MARKETING MANAGEMENT

PUBLIC RELATIONS - CONCEPT

The concept of Public Relations involves a variety of programmes to promote and protect a company's image or its products. It means to strengthen relations with various stake holders like customers, shareholders, employees, suppliers, investors etc. It is done through - news, speeches by corporate leaders, organizing events like sports events, concerts, seminars etc.

'**Public Association Relations**' defined public relations as " The art and social science of analyzing trends, predicting their consequences, counseling organizational leaders and implementing planned programme of action which will serve both the organization and the public interest."

"**The Chartered Institute of Public Relations**" defines Public Relations as 'a strategic management function that adds value to an organization by helping it to manage its reputation;

Public relations covers a wide range of tactics, usually involve providing information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact.

Traditional Public Relation Tools include- Press release and Press Kits which are distributed to the media to generate interest from the Press.

Other widely known Tools include- Brochures, Newsletters and Annual Reports.

- Role:**
- (i) Smooth functioning of business and achievement of objectives.
 - (ii) Building corporate image that affects favorably on its products.
 - Up keep of parks, gardens, sponsoring sports activities etc.
 - (iii) Build interest in the established product and help in launching Products.

QUALITIES OF A GOOD SALESMAN

1. Physical qualities: Good looking, healthy,
2. Psychological qualities: Sweet natured, Good behavior, mentally healthy,
3. Technical quality: Full technical knowledge about the product,
4. Good communication skills,
5. Honesty,
6. Courtesy,
7. Persistent,
8. Capacity to inspire trust.

UNIT: FINANCIAL MARKETS

TRADING PROCEDURE ON A STOCK EXCHANGE

The procedure for purchase and sale of securities in a stock exchange involves the following steps:

1. Selection of a broker

The first step is to select a broker who will buy / sell securities on behalf of the speculator/ investor. This is necessary because trading of securities can only be

done through SEBI registered brokers who are the members of a stock exchange. Brokers may be individuals, partnership firms or corporate bodies.

2. Opening demat account with Depository

The next step is to open a demat account. Demat (Dematerialized) account refers to an account which an Indian citizen must open with the depository participant (banks, stockbrokers) to trade in listed securities in electronic form.

The securities are held in the electronic form by a depository. 'Depository' is an institution / organization which holds securities (e.g. shares, debentures, bonds, mutual funds etc.) in electronic form, in which trading is done. At present there are two depositories in India: NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.)

Depository interacts with the investor through depository participants. PDS are agents - Stock brokers. Your Depository participant will maintain your securities account balances and intimate to you the status of your holding from time to time.

3. Placing the order

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail etc.

The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

4. Executing the order

According to the instructions of the investor, the broker buys or sells securities.

The broker then issues a contract note. A copy of the contract note contains the name and the price of securities, names of the parties, brokerage charges. It is signed by the broker.

5. Settlement

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract.

Equity spot markets follow a T + 2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time, Monday to Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk.

UNIT: CONSUMER PROTECTION

AGAINST WHOM A COMPLAINT CAN BE FILED

1. The seller, manufacturer or dealer of goods which are defective.

'Defect' means any fault, imperfection or shortcoming in the Quality, quantity or purity of goods.

2. The provider of services if they are deficient in any manner.

'Deficiency' means any imperfection, shortcoming or Inadequacy in the quality, nature and manner of performance of Services.