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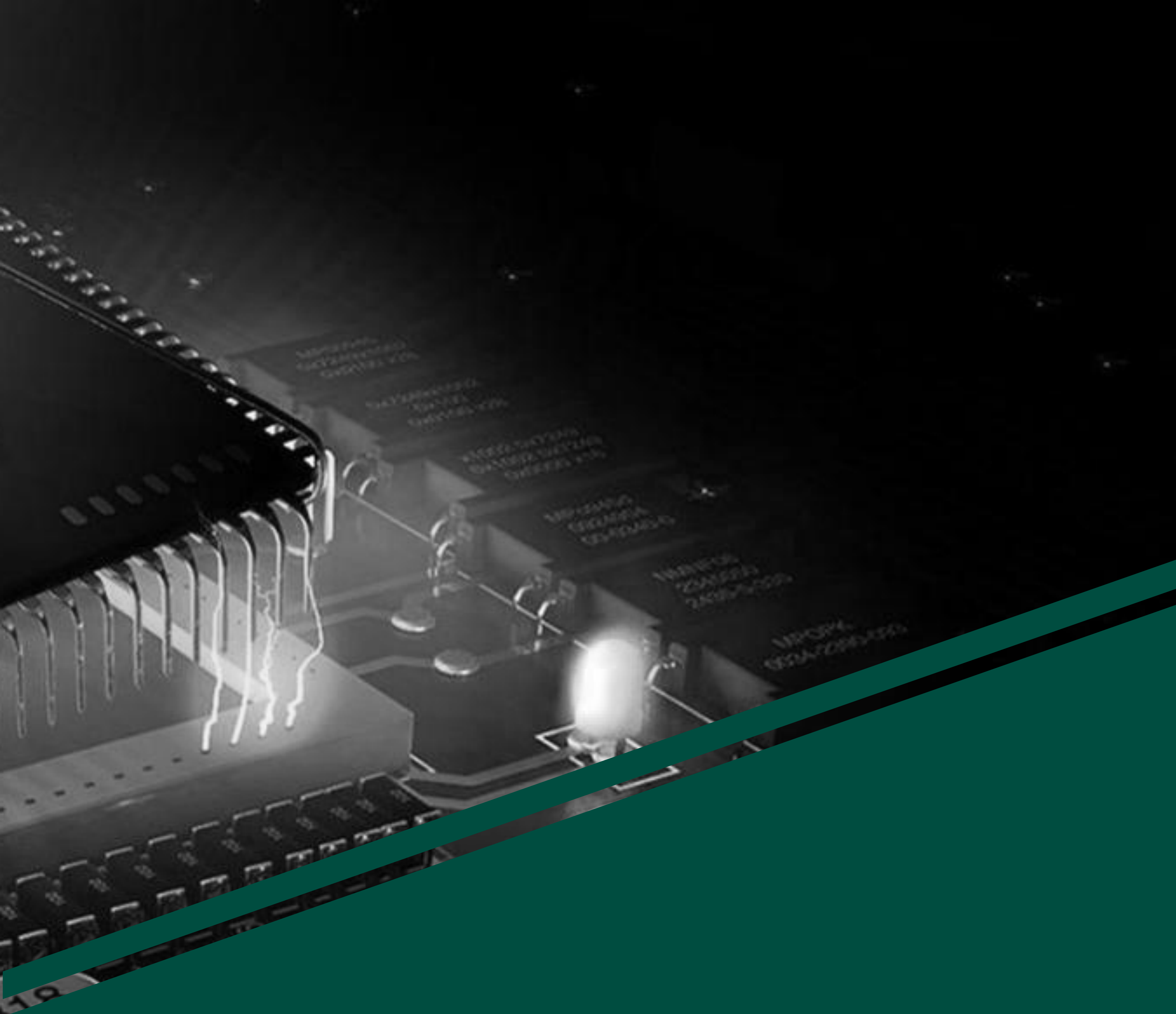
Economics and Capital Markets



"The root of the problem is the failure to distinguish between operational effectiveness and strategy. The quest for productivity, quality, and speed has spawned a remark- able number of management tools and techniques: total quality management, benchmarking, time-based competition, outsourcing, partnering, reengineering, change management".

~Amran Bhuzohera~

"The processes of decision-making within an institution. It thus holds implications for the administrative organisation, which enables an institution to set its policies and objectives, to achieve them, and to monitor its progress towards their achievement. It also refers to the mechanisms whereby those who have been given the responsibility and authority to pursue those policies and objectives are held to account. The adoption of sound principles of governance helps those charged with taking important decisions to identify, assess and manage institutional risk, and to set up sound systems of financial control. Finally, a well-designed structure of governance will serve all members of the institution; but it will also serve the public by virtue of what it does to render an institution accountable to the outside world".

Introduction

A **capital market** is a financial market in which long-term debt(over a year) or equity backed securities are bought and sold. Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.[a] Financial regulators like Securities and Exchange Board of India (SEBI), Bank of England (BoE) and the U.S. Securities and Exchange Commission (SEC) oversee capital markets to protect investors against fraud, among other duties.

An asset is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit. Assets are reported on a company's balance sheet, and they are bought or created to increase the value of a firm or benefit the firm's operations. An asset can be thought of as something that in the future can generate cash flow, reduce expenses, improve sales, regardless of whether it's a company's manufacturing equipment or a patent on a particular technology.

Meaning of Financial Assets

A financial asset is an intangible asset whose value is derived from a contractual claim, such as bank deposits, bonds, and stocks. Financial assets are usually more liquid than other tangibleassets, such as commodities or real estate, and may be traded on financial market.

Tangible assets are physical assets such as land, vehicles, equipment, machinery, furniture, inventory, stock, bonds and cash. These assets are the backbone of a company that keep it in production but are not available to customers. Tangible assets are at risk of damage either from naturally occurring incidents, theft or accidents. The two types of tangible assets are current and fixed. Current assets are inventory, or items a company turns into cash usually by the end of the year. These assets can be used as liquidation to save a company from debt problems or as financial aid. Fixed assets are physical items that will not be sold at any point in the business. These assets include machinery, equipment, vehicles or land, and they are needed to run the business continually.

Intangible assets are nonphysical, such as patents, trademarks, franchises, goodwill and copyrights. Depending on the type of business, intangible assets may include Internet domain names, performance events, licensing agreements, service contracts, computer software, blueprints, manuscripts, joint ventures, medical records, permits and trade secrets. Intangible assets add to a company's possible future worth and can be much more valuable than its tangible assets.

Meaning of debt:

Debt is an amount of money borrowed by one party from another. Debt is used by many corporations and individuals as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest. The most common forms of debt are loans, including mortgages and auto loans, and credit card debt. Under the terms of a loan, the borrower is required to repay e balance of the loan by a certain date, typically several years in the future. The terms of the loan also stipulate the amount of interest that the borrower is required to pay annually, expressed as a percentage of the loan amount. Interest is used as a way to ensure that the lender is compensated for taking on the risk of the loan while also encouraging the borrower to repay the loan

quickly in order to limit his total interest expense. In addition to loans and credit card debt, companies that need to borrow funds have other debt options. Bonds and commercial paper are common types of corporate debt that are not available to individuals. Bonds are a type of debt instrument that allows a company to generate funds by selling the promise of repayment to investors. Both individuals and institutional investment firms can purchase bonds, which typically carry a set interest.

Meaning of Equity

The value of an asset less the value of all liabilities on that asset is called as Equity. Generally speaking, the definition of equity can be represented with the accounting equation:

Yet, because of the variety of types of assets that exist, this simple definition can have somewhat different meanings when referring to different kinds of assets. The following are more specific definitions for the various forms of equity:

A stock or any other security representing an ownership interest. This may be in a private company (not publicly traded), in which case it is called private equity; In a company's balance sheet, the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses). It is also referred to as shareholders' equity; In the context of margin trading, the value of securities in a margin account minus what has been borrowed from the brokerage; In the context of real estate, the difference between the current fair market value of the property and the amount the owner still owes on the mortgage. It is the amount that the owner would receive after selling a property and paying off the mortgage. It is referred to as "real property value."

Properties of Financial Assets

1. Moneyness
2. Divisibility
3. Reversibility (round-trip cost)
4. Term to Maturity
5. Liquidity
6. Convertibility
7. Currency
8. CF and Return Predictability 9. Complexity
10. Tax Status

① Moneyness: the ability to transfer a financial asset into money at little cost, delays or risk. Some examples are cash and checking accounts.

② Divisibility: is related to the minimum size in which a financial asset can be liquidated and exchanged for money.

③ Reversibility (round-trip cost): refers to the cost of investing in a financial asset and then getting out of it and back into cash again.

④ Term to maturity: this is the length of the interval until the date at which the instrument is scheduled to make its final payment, or the time until the owner is entitled to demand liquidation.

⑤ Liquidity: how much the seller stands to lose if he wishes to sell immediately rather than allowing some time to pass.

⑥ Convertibility: refers to the notion that some financial assets can be converted into other assets, e.g., a convertible bond

⑦ Currency: this refers to the foreign exchange value or foreign exchange currency denomination of the financial asset.

⑧ Cash flow and return predictability: this is the cash yield of a financial asset per unit of time and consists of all the cash distributions that the financial asset will pay to its owners.

⑨ Complexity: this involves combinations of two or more simple assets. For instance, a callable bond can be valued as a straight bond plus the value of the put option to the issuer.

⑩ Tax status: refers to the taxability of interest income generated from a financial asset.

Financial Markets

What is the 'Financial Market'

The financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives.

Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade.

- Financial markets consist of

1. sellers (fund suppliers-lenders)
2. buyers (fund demanders-borrowers)
3. financial instruments (fin assets, securities)
4. financial institutions (intermediaries)

Classification of Financial Markets

Financial markets refer to the system through which funds are transferred from surplus sector to the deficit sector. On the basis of the duration of financial Assets and nature of product money market can be classified into 3.They are following

1) **Money Market:** - It is the institutional arrangement of borrowing and lending into sectors i.e. organised sector headed by RBI and unorganized sector no way related with RBI. Further depending upon the type of instrument used money is divided into various sub mark

2) **Capital Market:** - It deals with long term lending's and borrowings. It is a market for long term instruments such as shares, debentures and bonds. It also deals with term loans. this market is also dividend into 2 types:

a) PrimaryorNewIssueMarket

¬ firstly issued securities are traded ¬ Issuers raise new capital

b) Secondary Market of Stock exchange.

¬existing securites are traded

¬ Issuers does not raise new capital

2) **Foreign Exchange market:** -It deals with foreign exchange. It is a market where the exchanging of currencies will takes places. It is the market where currencies of different country are purchased and sold. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated market across the globe.

3) **Credit Market-** Credit market is a place where banks, FIs and NBFCs purvey short, medium and long-term loans to corporate and individuals.

Financial system

In a broad sense, finance refers to funds of monetary resources needed by individuals, business houses and the Government. Finance is a facility that built the Gap between deficit sectors to surplus sector by

shifting funds.

Every country aiming at its progress depends on the efficiency of this economic system which depends upon financial system. The economic development of a nation is reflected by the progress of the various economic units. These units are broadly classified into corporate sector, government and household sector. While performing their activities these units will be placed in a surplus/deficit/balanced budgetary situations.

There are organisations or people with surplus funds and there are those with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A **Financial System** is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities. The financial system is the network of institutions and individuals who deal in financial claims to various instruments. Financial System of any country consists of financial markets, financial intermediation and financial instruments or financial products.

The financial system of India refer to the system of borrowing and lending of funds or the demand for and the supply of funds of all individuals, institutions, companies and of the Government. Commonly, the financial system is classified into:

a)Industrialfinance:fundsrequiredforthecon ductofindustryandtrade.

b) Agricultural Finance: funds needed and supplied for the conduct of
agriculture and allied activity.

c) Development finance: funds needed for development; actually it includes both
industrial finance and agricultural finance.

d) Government finance: relates to the demand for and supply of funds to meet Government expenditure.

India's financial system includes various institutions and the mechanism which affects the generation of savings by the community, the mobilisation of savings and the effective distribution of the savings among all those who demand the funds for investment purposes.

Components of the Financial System

The components of financial system are:

1) **Financial Institution:**

A financial institution is an establishment that conducts financial transactions such as investments, loans and deposits. Almost everyone deals with financial institutions on a regular basis. Everything from depositing money to taking out loans and exchanging currencies must be done through financial institutions. Here is an overview of some of the major categories of financial institutions and their roles in the financial system.

i) Banking Institutions: Participate in the economy's payment mechanism, deposit liabilities constitute a major part of national money supply.

ii) Non-Banking Institutions: LIC, SIDBI, IIBI, IFCI (All India Financial Institutions), SFCs & SIDCs

iii)Financial intermediaries: They are the intermediate between savers and investors. They lend money. They also mobilise savings. Examples Likes underwriters, Stock Exchange , Registrars, Depositories, stock brokers etc,,

2) **Financial Markets:**

It is a system through which funds are transferred from surplus sector to the deficit sector. On the basis of the

duration of financial Assets and nature of product money market can be classified into 3 types:
i) Money Markets: Highly liquid short term debt – instruments market including Call Money Market, Certificates of Deposits, Commercial Papers and Treasury Bills.
ii) Capital Markets: Market for Long-Term securities and provides risky capital in the form of equity. Also classified into two.
ϖ Primary (Direct) Market or New Issue Market
ϖ Secondary Market

3) **Financial Instruments:**
It includes through these instruments financial Institution mobilise saving. These are of 2 type's i.e.
i) Long Term: Shares, Debenture, Mutual Funds, Term Loans.
ii)Short Term: Call Loan (money market), Promissory Notes, Bills of exchange etc.

4) Financial services
Financial services include services like depository services, custodial functions, credit rating, leasing, portfolio management, under writing of shares and securities and the like.
Functions/important and role of financial system
a. It links the savers and investors. It helps in mobilizing and allocating the savings efficiently and effectively. It plays a crucial role in economic development through saving-investment process. This savings – investment process is called capital formation.
b. It helps to monitor corporate performance.
c. It provides a mechanism for managing uncertainty and controlling
d. It provides a mechanism for the transfer of resources across geographical boundaries
e. It offers portfolio adjustment facilities (provided by financial markets and financial intermediaries).
f. It helps in lowering the transaction costs and increase returns. This will motivate people to save more.
g. It promotes the process of capital formation
h. It helps in promoting the process of financial deepening and broadening. Financial deepening means increasing financial assets as a percentage of GDP and financial broadening means building an increasing number and variety of participants and instruments.
In short, a financial system contributes to the acceleration of economic development. It contributes to growth through technical progress. Role of Financial System in Economic Development

The financial system performs a crucial role in economic development of all countries through saving investment process, also known as capital formation. It is for this reason that the financial system is sometimes called the financial market. The purpose of the financial market is to mobilize savings effectively and allocate the same efficiently among the ultimate users of funds.

Weakness of Indian Financial system
Even though Indian financial system is more developed today, it suffers from certain weaknesses. These may be briefly stated below:
1) Lack of co-ordination among financial institutions: There are a large number of financial intermediaries. Most of the financial institutions are owned by the government. At the same time, the government is also the controlling authority of these institutions. As there is multiplicity of institutions in the Indian financial system, there is lack of co- ordination in the working of these institutions.

2) Dominance of development banks in industrial finance: The industrial financing in India today is largely through the financial institutions set up by the government. They get most of their funds from their sponsors. They act as distributive agencies only. Hence, they fail to mobilise the savings of the public. This stands in the way of growth of an efficient financial system in the country.

3) Inactive and erratic capital market: In India, the corporate customers are able to raise finance through development banks. So, they need not go to capital market. Moreover, they do not resort to capital market because it is erratic and enactive. Investors too prefer investments in physical assets to investments in financial assets.

4) Unhealthy financial practices: The dominance of development banks has developed unhealthy financial practices among corporate customers. The development banks provide most of the funds in the form of term loans. So there is a predominance of debt in the financial structure of corporate enterprises This predominance of debt capital has made the capital structure of the borrowing enterprises uneven and lopsided. When these enterprises face financial crisis, the financial institutions permit a greater use of debt than is warranted. This will make matters worse

5) Monopolistic market structures: In India some financial institutions are so large that they have created a monopolistic market structures in the financial system. For instance, the entire life insurance business is in the hands of LIC. The weakness of this large structure is that it could lead to inefficiency in their working or mismanagement. Ultimately, it would retard the development of the financial system of the country itself.

6) Other factors: Apart from the above, there are some other factors which put obstacles to the growth of Indian financial system. Examples are:
a) Banks and Financial Institutions have high level of NPA.
b)Government burdened with high level of domestic debt.
c) Cooperative banks are labelled with scams.
d)Investors confidence reduced in the public sector undertaking etc.,
e) Financial illiteracy.
In the recent past, the most notable aspect of Indian economy is its financial system. Perhaps no system in the world has changed so much as that of our financial system. Indian financial system undergoing fast development and hence not matured like that of developed countries. The government should take reasonable reforms to mould our financial system as healthy one.

Capital Market

The capital market is the market for long term capital; it refers to all the facilities and institutional arrangements for borrowing and lending "term funds" medium-term and long- term funds. The demand for long term money capital comes predominantly from private and public manufacturing industries, trading and transport unit etc. and agriculture too requires some funds for long-term purposes. The Central and State Governments require substantial amounts from the capital market. The supply of funds for the capital market comes largely from individual savers (they supply through banks and insurance companies), corporate savers, commercial banks, insurance companies, public provident funds and other specified agencies.

Meaning

Capital market is a market where buyers and sellers engage in trade of long term financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital market simply refers to a market for long term funds. It is a market for buying and selling of equity, debt and other securities. Generally, it deals with long term securities that have a maturity period of above one year.

Definition

According to W.H. Husband and J.C. Dockerbay "The capital market is used to designate activities in long term credit, which is characterised mainly by securities of investment type".

The functions and characteristics of an efficient capital market are as follows:

1) Mobilise long term savings for financing long term investments.

2) Provide risk capital in the form of equity or quasi-equity to entrepreneurs.

3) Provide liquidity with a mechanism enabling the investor to sell financial assets.

4) Improve the efficiency of capital allocation through a competitive pricing mechanism.

5) Disseminate information efficiently for enabling participants to develop an informed opinion about investment, disinvestment, reinvestment etc.

6) Enable quick valuation of instruments – both equity and debt.

7) Provide insurance against market risk through derivative trading and default risk through investment protection fund.

8) Provide operational efficiency through: simplified transaction procedures, Lowering settlement times, Lowering transaction costs

9) Develop integration among: debt and financial sectors, equity and debt instruments, long term and short term funds.

10) Direct the flow of funds into efficient channels through investment and disinvestment and reinvestment.

Importance of Capital Market in an Economy

1) Allocation of Capital: One of the major economic benefits generated by development of the Capital Markets is improved allocation of capital. The prices of Equity and Debt respond immediately to change in market conditions and quickly embodied in current asset prices. The signal created by the price change encourages or discourages capital inflow to an industry/company.

2) Allocation of Risk: Capital Markets facilitates investors to earn returns based on their risk taking ability. Investors invest in high-risk instruments either because they are less risk averse or because the new risk is unaffected or negatively correlated with other investments in the portfolio.

3) Mobilization of Savings: With the development of capital, market, the banking and non- banking

institutions provide facilities, which encourage people to save more. In the less- developed countries, in the absence of a capital market, there are very little savings and those who save often invest their savings in unproductive and wasteful directions, i.e., in real estate (like land, gold, and jewellery) and conspicuous consumption.

4) Encouragement to Investment: The capital market facilitates lending to the businessmen and the government and thus encourages investment. It provides facilities through banks and nonbank financial institutions. Various financial assets, e.g., shares, securities, bonds, etc., induce savers to lend to the government or invest in industry. With the development of financial institutions, capital becomes more mobile, interest rate falls and investment increases.

5) . Stability in Security Prices: The capital market tends to stabilise the values of stocks and securities and reduce the fluctuations in the prices to the minimum. The process of stabilisation is facilitated by providing capital to the borrowers at a lower interest rate and reducing the speculative and unproductive activities.

Structure of Financial Market

The structure of financial markets as given as follow by a flow chart :

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6) Benefits to Investors: The credit market helps the investors, i.e., those who have funds to invest in long-term financial assets, in many ways:

(a) It brings together the buyers and sellers of securities and thus ensure the marketability of investments,

(b) By advertising security prices, the Stock Exchange enables the investors to keep track of their investments and channelize them into most profitable lines,

(c) It safeguards the interests of the investors by compensating them from the Stock Exchange Compensating Fund in the event of fraud and default.

The Indian capital market is divided into the government securities (gilt- edged market), industrial securities market, development financial institution and financial intermediaries.

1) Government Securities (gilt- edged market)

The Government security is also called gilt-edged market. It refers to the market for government and semi-government securities, backed by the Reserve Bank of India. The securities traded in this market are stable in value and are much sought after by bank and other institutions.

Govt. securities market is a market where govt. securities are traded. It is the largest market in any economic system. Therefore, it is the benchmark for other market. Government securities refer to the marketable debt issued by the government of semi-government bodies. A government security is a claim on the government. It is a totally secured financial instrument ensuring safety of both capital and income. That is why it is called gilt edged security or stock. Central Government securities are the safest among all securities.

Government securities are issues by:

¬ Central Government

¬ State Government

¬Semi-Government authorities like local government authorities, e.g., city corporations and municipalities

¬ Autonomous institutions, such as metropolitan authorities, port trusts, development trusts, state electricity boards.

¬ Public Sector Corporations

¬ Other governmental agencies, such as SFCs, NABARD, LDBs, SIDCs, housing boards etc.

Characteristics of government securities Market

The Main characteristics of government securities

market are as follows:
1. Supply of government securities in the market arises due to their issue by the Central, State of Local governments and other semi-government and autonomous institutions
explained above.

2. Government securities are also held by Reserve Bank of India (RBI) for purpose and
sale of these securities and using as an important instrument of monetary control.

3. The securities issued by government organisations are government guaranteed securities and are completely safe as regards payment of interest and repayment of principal.

4. Government securities bear a fixed rate of interest which is generally lower than interest rate on other securities.
5. These securities have a fixed maturity period.
6. Interest on government securities is payable half-yearly.
7. Subject to the limits under the Income Tax Act, interest on these securities is exempt from income tax.
8. The Government security market is an 'over-the-counter' market and each sale and
purpose has to be negotiated separately.

9. The Government security market is basically limited to institutional investors.
2) Industrial Securities Market
The Industrial security Markets refers to the market for shares and debentures of old and new companies. This market is further divided into the new issue market and the old capital market meaning the stock exchange.
New Issue Market refers to the raising of new capital in the form of shares and debentures whereas the Old Capital Market deals with securities already issued by companies. Both markets are equally important, but often the new issue market is much more important from the point of view of economic growth. However, the functioning of the new issue market will be facilitated only when there are abundant facilities for transfer of existing securities.
3) DevelopmentFinancialinstitution(DFI'S):
A DFI'S is defined as an institution promoted or assisted by Government mainly to provide development finance to one or more sectors or sub-sectors of the economy. The institution distinguishes itself by a judicious balance of commercial norms of operation and developmental obligations
DFIs were established mainly to cater to the demand for long-term finance by the industrial sector. India's first DFI was set up in 1948 and it established State Financial Corporation's (SFCs) to provide long term finance to small and medium industrial unit at the State level after passing of the SFCs Act, 1951, followed by the formation of Industrial Finance Corporation of India (IFCI) ,ICIC (1955),IDBI(1964) and UTI(1964) AFT) followed soon after LIC was set up in 1956 to mobilize individual savings and to invest part of the savings in the capital market Many more specialized financial institutions have been set up and are commonly called public sector financial institutions.
These institutions have been doing very useful work in subscribing to the shares and debentures of new and old companies, in giving loan assistance, in underwriting new issues, and so on. At present, many of them have become powerful shareholders in many prominent companies.
4) Financial Intermediaries:
They intermediate between savers and investors. They lend money. They also mobilise savings. The various financial intermediaries

Capital Market Instruments

Capital market instruments divided in to two categories
1) Traditional instruments
This includes:
a. Equity shares
b. Preference shares and its various classes
c. Debentures and its types

d. bonds etc

a)Equityshares:equitysharescommonlyreferredtoasordinaryshareal sorepresents the form of fractional ownership in which a shareholder, as a fractional owner, undertake the maximum entrepreneurial risk associated with business a business venture. The holder of such shares is member of the company and has voting rights. A company may issue shares with differential rights as to voting, payment of dividend etc.

Types of Equity shares

Following are the types of equity shares:

i) Rights Shares: it’s a type of dividend of subscription rights to buy additional securities in a company made to the company's existing security holders. When the rights are for equity securities, such as shares, in a public company, it is a non-dilutive pro rata way to raise capital. Rights issues are typically sold via a prospectus or prospectus supplement. With the issued rights, existing security-holders have the privilege to buy a specified number of new securities from the issuer at a specified price within a subscription period In a public company, a rights issue is a form of public offering

ii) Bonus Share: It is a free share of stock given to current shareholders in a company, based upon the number of shares that the shareholder already owns While the issue of bonus shares increases the total number of shares issued and owned, it does not change the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.

iii) Blue chip shares: A Blue chip shares means that the shares issued by blue chip companies. Blue Chip Company is very strong financially, with a solid track record of producing earnings and only a moderate amount of debt. It also has strong name in its industry with dominant products or services. The blue chip shares qualified as a high-quality and usually high-priced stock. It has high price because of public confidence in company's long record of steady earnings

iv) Preference Shares: Preference shares are those, which enjoy the following two preferential rights:
1. Dividend at a fixed rate or a fixed amount on these shares before any dividend on equity shares.
2. Return of preference share capital before the return of equity share capital at the time of winding up of the company.

Preference shares also have a right to participator in part in excess profits left after been paid to equity shares, or has a right to participate in the premium at the time of redemption. But these shares do not carry voting rights.

v) Debentures or Bonds: If a company needs funds for extension and development purpose without increasing its share capital, it can borrow from the general public by issuing certificates for a fixed period of time and at a fixed rate of interest. Such a loan certificate is called a debenture. Debentures are offered to the public for subscription in the same way as for issue of equity shares. Debenture is issued under the common seal of the company acknowledging the receipt of money. various types debentures are as follows

i) Convertible Debentures: These are those debentures which can be converted into equity shares. These debentures have an option to convert them into equity or preference shares at the stated rate of exchange after a certain period.

ii)Non-Convertible Debentures: These are those debentures which cannot be converted either into equity shares or preference shares. They may be secured or unsecured. Non-convertible debentures are normally redeemed on maturity period which may be 10 or 20 years.

iii) Redeemable Debentures: These debentures are issued by the company for a specific period only. On the expiry of period, debenture capital is redeemed or

paid back.

iv) Irredeemable Debentures: These debentures are issued for an indefinite period which is also known as perpetual debentures. The debenture capital is repaid either at the option of the company by giving prior notice to that effect or at the winding up of the company. The interest is regularly paid on these debentures. The principal amount is repayable only at the time of winding up of the company. However, the company may decide to repay the principal amount during its lifetime.

v)Fully Convertible debentures: A type of debt security where the whole value of the debenture is convertible into equity shares at the issuer's notice. The ratio of conversion is decided by the issuer when the debenture is issued. Upon conversion, the investors enjoy the same status as ordinary shareholders of the company.

vi) Partially convertible debentures: are the debentures part of which can be converted into equity at a price and the time specified by the issuer at the time of issuing such instruments. It may also be defined as a financial instrument that may be converted into a different security of the same company under various specified conditions. The option of this conversion may sometimes be optional, i.e. at the discretion of the investor or sometimes it may be compulsory as well. Generally, in these types of financial instruments no cash is involved.

The other types of capital market instruments are as follow:

Euro issue in India

A bond that is denominated in a currency not native to the country where it is issued. Eurobonds are named after the currency they are denominated in. For example, Euro yen and Eurodollar bonds are Japanese yen bond form, payable to the bearer and were also free of withholding tax. The bank paid the holder of the coupon the interest payment due. Usually, no official records were kept. The word Eurobond was originally created by Julius Strauss.

Indian companies have been raising funds from international financial markets by issuing Euro bonds.

Mainly there are two types of Euro issued by India for raising fund they are:

1) Euro convertible bonds: A large proportion of new issues of Euro bonds are called
bonds but behave like equity - because they incorporate equity options.

2) Euro equities: Compared to various debt financing instruments, issuance of Euro equities stands out as a distinct source of raising finance in international financial markets. By means of such issues, the issuing company offers ownership rights.

Capital Market Institutions

Mutual funds

In recent years, mutual funds are the most important among the newer capital market institutions. Several public sector banks and financial institutions have set up mutual funds on a tax-exempt basis, virtually on the same footing as Unit Trust of India (UTI). Their main function is to mobilize the saving of the general public and invest them in stock market securities. Accordingly, they attracted strong investor support and showed significant progress. There was even diversion of savings of the middle classes from banks to mutual funds. The Government has thrown the field open to the private sector and joint sector mutual funds.

The Narasimham Committee recommended:

- the creation of an appropriate regulatory framework to promote sound, orderly and competitive growth of mutual fund business;
- the creation of proper legal framework to govern the establishment and operation of mutual funds (the UT1 is governed by a special statute); and
- Equality of treatment between various mutual funds including UT1 in the area of lax concessions.
- secondary market
- Units are exchangeable, meaning investors can sell their units back to the fund
- Generally new units are created and sold to accommodate new investors
- The investment portfolios are managed by separate entities known as investment advisors

ADVANTAGES AND DISADVANTAGES

Every investment has advantages and disadvantages. But it's important to remember that features that matter to one investor may not be important to you. Whether any particular feature is an advantage for you will depend on your unique circumstances. For some investors, mutual funds provide an attractive investment choice because they generally offer the following features:

① Professional Management: Professional money managers research, select, and monitor the performance of the securities the fund purchases.

② Diversification: Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket." Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

③ Affordability: Some mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both

④ Liquidity: Mutual fund investors can readily redeem their shares at the current Net Asset Value (NAV) plus any fees and charges assessed on redemption at any time. But mutual funds also have features that Some investors might view as disadvantages, such as:

⑤ Costs despite Negative Returns: Investors must pay sales charges, annual fees, and other expenses (which we discuss in detail on page 13) regardless of how the fund performs. And, depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive— even if the fund went on to perform poorly after they bought shares.

⑥ Lack of Control— Investors typically cannot ascertain the exact make-up of fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

⑦ Price Uncertainty: with an individual stock, you can obtain real-time (or close to real- time) pricing information with relative ease by checking financial websites or by calling your broker. Y ou can also monitor how a stock's price changes from hour to hour or even second to second. By contrast, with a mutual fund, the price at which you purchase or redeem shares will typically depend on the fund's Net asset value, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close

About TICGL

Tanzania Investment and Consultant Group Ltd

TICGL Firm we specialize in all aspects of Project Development , Investment and Business consulting.

TICGL Planning and Economy:- Through market systems strengthening, micro- small- and medium-sized enterprise development, and entrepreneurship promotion, TICGL helps to create, grow, and sustain businesses that stimulate economic growth.

Our Services:

1. *Investment Impacts Assessment and Survey*
2. *Business Plan Development and strategy*
3. *Project Plan Development and Strategy*
4. *Strategic Plan Development*
5. *Business Investment and Strategic Plan*
6. *Accounting and Finance*
7. *Business Strategy*
8. *Market Development Strategy*

T *Tanzania Investment and Consultant Group Ltd*

"We work alongside entrepreneurs to improve their access to capital, enhance their technical skills and knowledge, and strengthen the sustainability of high-quality business development services all of which leads to increases in enterprises, jobs, and incomes."

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