# 9 Money Market and Capital Market in India

### Introduction :

Finance is the backbone of an economy. Finance, basically refers to the management of money. It includes funds needed by individuals, business houses and the Government for various purposes. Thus, finance is categorized as personal finance, corporate finance and public finance. The financial system of the country is responsible for the mobilization and allocation of funds. It helps in creation of wealth which is vital for the economic development of the country. The financial system in India comprises of financial institutions, financial markets, financial instruments and financial services.

**INDIAN FINANCIAL SYSTEM**
- FINANCIAL INSTITUTIONS
- FINANCIAL MARKETS
- FINANCIAL INSTRUMENTS
- FINANCIAL SERVICES

This chapter deals exclusively with financial markets in India. Financial markets are an important component of the financial system.

### Meaning of Financial Market :

Financial market refers to a market where sale and purchase of financial assets such as bonds, stocks, derivatives, government securities, foreign currency etc. is undertaken. Financial markets operate through banks, non-banking financial institutions, brokers, mutual funds, discount houses etc. Financial markets include two distinct markets i.e. the Money market and Capital market.

**FINANCIAL MARKETS**
- MONEY MARKET
- CAPITAL MARKET

### Try this :

From the given examples, identify the type of finance involved (Personal finance/ Corporate finance /Public finance) :

- Building a retirement corpus
- Raising share capital through sale of equity shares
- Collection of tax revenue
- Clearing home loan through EMI (Equated Monthly Instalment)
- Expenditure on social infrastructure such as health and education
- Managing working capital needs

## A) Money Market in India :

### Meaning :

Money market is a market for lending and borrowing of short term funds. It is a market for "near money" i.e. short term instruments such as trade bills, government securities, promissory notes etc. Such instruments are highly liquid, less risky and easily marketable with a maturity period of one year or less than one year.

### Do you know?

**Some Financial Instruments :**

- **Bonds** refer to debt instruments issued by companies or the government as a means of borrowing long term funds.
- **Equity shares** refer to shares of a company held by an individual or a group.
- **Derivatives** refer to a financial security which derives its value/price from the underlying assets such as bonds, stocks, currency, interest rates, commodities etc.
- **Government securities** refer to debt instruments issued by a government with a promise of repayment at maturity.

- **Trade bills** refer to bills of exchange drawn on and accepted by a trader (trade acceptance) in payment of goods.
- **Promissory note** is a financial instrument that contains a written promise by one party to pay another party a definite sum of money, either on demand or at a specified future date.

### Structure of Money Market in India :

The money market in India is dichotomous by nature. It comprises of both, the organized sector as well as the unorganized sector. The organized sector includes the Reserve Bank of India (RBI), commercial banks, co-operative banks, development financial institutions, investment institutions and the Discount and Finance House of India (DFHI). The unorganized sector on the other hand, comprises of indigenous bankers, money lenders and unregulated non-bank financial intermediaries.

Money market centres in India are located at Mumbai, Delhi and Kolkata. However, Mumbai is the only active money market centre in India with money flowing in from all parts of the country.

The following chart explains the structure of money market in India :

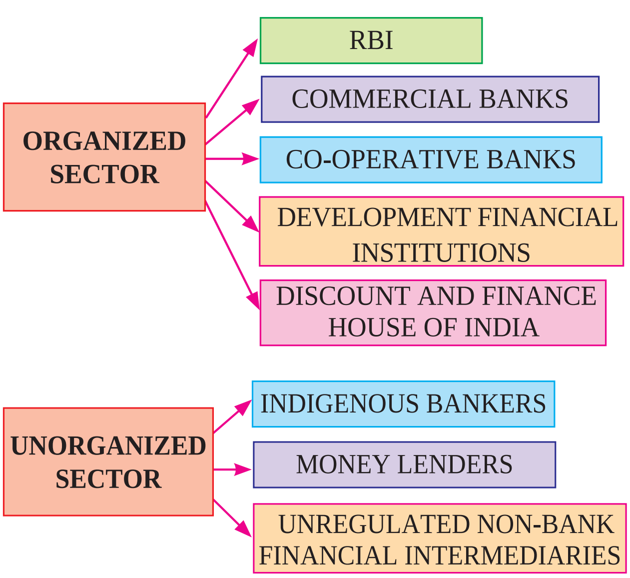



**Fig. 9.1**

1) **Organized Sector :** The organised sector of the money market consists of the Reserve Bank of India, commercial banks, co-operative banks, regulated financial intermediaries etc. Let us now discuss the organized sector of the money market in India.

a) **Reserve Bank of India (RBI):** Every country in the world has a Central Bank which is at the apex of the banking system. It is entrusted with the responsibility of regulating the money market in the country. Reserve Bank of India is the central bank of our country. RBI was set up on the basis of the recommendations of the Hilton Young Commission. The RBI Act of 1934 provides the statutory basis of the functions of the bank. RBI commenced its operations on 1st April, 1935 as a private shareholders' bank. RBI was nationalized on 1st January, 1949. It is the most important constituent of the money market.

### Popular Definitions of Central Bank :

**Dr. M. H. de Kock :** "Central bank is one which constitutes the apex of the monetary and banking structure of the country."

**Prof. W. A. Shaw :** "Central bank is a bank which controls credit."

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

### Functions of Reserve Bank of India

1) **Issue of Currency Notes :** RBI has the sole right to issue currency notes of all denominations, except one rupee note and coins. As per the 'Minimum Reserve System' of 1957, RBI is required to maintain minimum gold and foreign exchange reserves of Rs 200 crores, out of which at

least ₹ 115 crores should be in gold and the remaining ₹ 85 crores should be in terms of foreign currency and government securities.

2) **Banker to the Government :** RBI acts as a banker, agent and advisor to the Government. It transacts the business of both, the Central and State Governments. It accepts money as well as makes payments on behalf these Governments. It also undertakes the management of public debt. It advises the Government on a wide range of economic issues.

3) **Banker's Bank :** RBI exercises statutory control over the commercial banks. All scheduled banks are compulsorily required to maintain a certain minimum of cash reserves with the RBI against their demand and time liabilities. RBI provides financial assistance to banks in the form of discounting of eligible bills. Loans and advances are also provided against approved securities.

4) **Custodian of Foreign Exchange Reserves :** RBI acts as a custodian of the country's foreign exchange reserves. It has to maintain the official rate of exchange of rupee as well as ensure its stability. RBI also undertakes to buy and sell the currencies of all the members of the International Monetary Fund (IMF).

5) **Controller of Credit :** As a supreme banking authority of the country, RBI has the power to influence the volume of credit created by commercial banks. It also monitors the purpose or use of credit. Quantitative methods such as bank rate, open market operations, variable reserve ratios such as Cash Reserve Ratio (CRR), Statutory Liquid Ratio (SLR) etc. control the volume of credit created. Qualitative methods such as fixing margin requirements, credit rationing, moral suasion etc. regulate the purpose or use of credit.

6) **Collection and Publication of Data :** RBI collects and compiles statistical information related to banking and other financial sectors of the economy.

7) **Promotional and Developmental Functions :** RBI also performs certain promotional and developmental functions such as extending banking services to semi-urban and rural areas, providing security to depositors, development of specialized institutions for agricultural credit, industrial finance etc.

8) **Other Functions :** RBI acts as a clearing house for settling the accounts between its member banks. As a lender of last resort, it also provides liquidity to banks experiencing financial difficulty.

**Find out :**

Names of the Central Banks of the following countries :

| | |
|---|---|
| • USA | • UK (United Kingdom) |
| • CANADA | • SWEDEN |
| • RUSSIA | • FRANCE |
| • GERMANY | • JAPAN |
| • CHINA | • AUSTRALIA |

b) **Commercial banks :** Commercial banks act as intermediaries in the country's financial system to bring the savers and investors together. They are profit seeking financial institutions. Acceptance of deposits and granting loans and advances are the primary functions of commercial banks. Commercial banks play an important role in mobilizing savings and allocating them to various sectors of the economy. It includes both scheduled commercial banks and non-scheduled commercial banks. Scheduled commercial banks are those included in the second schedule of the Reserve Bank of India Act, 1934. In terms of ownership and function, commercial banks in India can be classified into four categories:

- Public sector banks
- Private sector banks
- Regional rural banks
- Foreign banks

### Popular Definitions of Commercial Bank :

**Banking Regulation Act of 1949 :** "Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, demand draft, order or otherwise."

**Prof. Cairncross :** "A bank is a financial intermediary, a dealer in loans and debts."

### Functions of Commercial Banks :

1) **Acceptance of deposits :** Deposits constitute the main source of funds for commercial banks. Savings lead to the creation of deposits. Deposits are categorized as (i) Demand deposits and (ii) Time deposits.

i) **Demand Deposits :** Deposits that are withdrawable on demand are known as demand deposits. They are in the form of Current account and Savings account deposits.

- Current account is usually opened by businessmen, corporations, industrial houses, trusts etc. They are provided with overdraft facility. Overdraft means withdrawal in excess of the balance in the account.
- Savings account are operated by a large number of people, particularly the salaried class, small traders etc. who wish to save a part of their income with the bank.

ii) **Time deposits :** Deposits that are repayable after a certain period of time are known as time deposits. They are in the form of recurring deposits and fixed deposits.

- Recurring deposit refers to a deposit wherein a customer deposits a fixed amount at regular intervals for a specified period of time.
- Fixed deposits refer to a lumpsum amount deposited by a customer for a specified period of time. Compared to all other deposits, fixed deposits carry a high rate of interest.

2) **Providing loans and advances :** Commercial banks mobilize savings and lend these funds to institutions and individuals for various purposes. Based on the tenure, loans include call loans, short term, medium term and long term loans. Longer the duration of the loans, greater will be the rate of interest. Besides this, banks also provide cash credit, overdraft facility as well as discount bills of exchange.

3) **Ancillary functions :** Commercial banks also provide a range of ancillary services such as transfer of funds, collection of money, making periodical payments on behalf of the customer, merchant banking, foreign exchange, safe deposit lockers, Demat facility, internet banking, mobile banking etc.

4) **Credit Creation :** Credit creation is an important function of commercial banks. Commercial banks are creators of credit. Demand and time deposits constitute the primary deposits of banks. After meeting the reserve requirements out of the net demand and time liabilities, the balance amount is used for giving loans. Thus, secondary deposits or 'derivative deposits' are created out of the loans given by the banks.

For instance, when the bank provides loan to its customer, the loan amount is credited into the bank account of the customer. The bank that receives the loan amount as a deposit, keeps aside a certain portion in the form of reserves. After meeting the reserve requirements, the bank lends the remaining amount. This procedure is followed by the entire banking system in the country, leading to creation of credit. In short, commercial banks create deposits out of the loans given thereby leading to credit creation.


Fig. 9.2

**Try this :**

Pair the logos given with their respective banks as given in the bracket below:
(State Bank of India, HSBC Bank, Union Bank of India, Axis Bank, Standard Chartered Bank, HDFC Bank)

c) **Co-operative Banks :** Co-operative banks came into existence with the enactment of the Co-operative Credit Societies Act of 1904. Co-operative banks supplement the efforts of commercial banks by meeting the credit needs of the local population. It fulfills the banking needs of small and medium income groups. The co-operative credit sector comprises of co-operative credit institutions such as primary co-operative credit societies, district central co-operative banks and state co-operative banks.

Fig. 9.3 explains the structure of co-operative banks in India :

**Three Tier Co-operative Credit Structure**

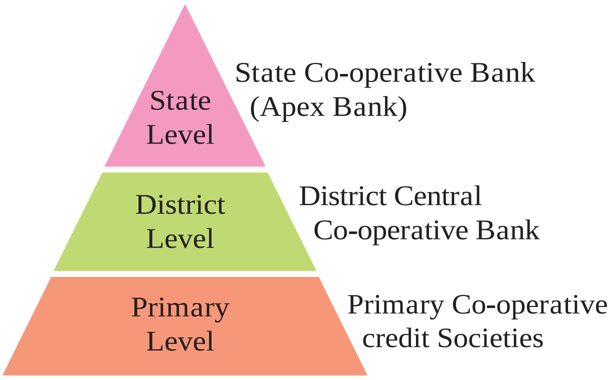



Fig. 9.3

**Try this :**

Collect information of Co-operative banks operating in your region at different levels.

d) **Development Financial Institutions (DFIs) :** Development financial institutions are agencies that provide medium and long-term financial assistance. They help in the development of industry, agriculture and other key sectors. Industrial Finance Corporation of India (IFCI) was the first development financial institution to be established in 1948.

**Let's recall :**

You have already studied in class XI about NABARD which is the apex institution in the rural credit structure. It provides credit for promotion of agriculture, small-scale industries, cottage and village industries, handicrafts etc.

Development financial institutions have diversified their operations with the advent of liberalization and globalization. They have set up subsidiaries to offer a wide range of new products and services such as commercial banking, consumer finance, broking, venture capital finance, infrastructural financing, e-commerce etc. Thus, development financial institutions are in the process of converting themselves into universal banks. RBI has issued guidelines for development financial institutions to become commercial banks. For e.g. ICICI (Industrial Credit and Investment Corporation of India) has become a universal bank by a reverse merger with its subsidiary ICICI Bank.

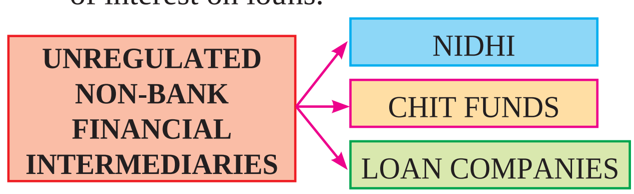
**e) Discount and Finance House of India (DFHI) :** The Discount and Finance House of India (DFHI) was set up in 1988 as a money market institution based on the recommendations of the Vaghul Committee. It is jointly owned by the RBI, public sector banks and financial institutions to impart liquidity to the money market instruments.

**2) Unorganized Sector :** The unorganized money market in India comprises of indigenous bankers, money lenders and unregulated non-bank financial intermediaries. The activities of the unorganized money market are largely confined to the rural areas.

**i) Indigenous bankers :** They are financial intermediaries that function similar to banks. They mostly deal in indigenous short-term credit instruments such as hundi. The rate of interest differs from one market to another. Indigenous bankers are mostly confined to certain social strata. They are an important source of funds in unbanked areas and provide loans directly to agriculture, trade and industry.

**ii) Money lenders :** They mostly operate in the villages. Money lenders usually charge a high rate of interest. The loans provided by money lenders are for both productive and unproductive purpose. Agricultural labourers, small and marginal farmers, artisans, small traders etc. usually borrow money from the money lenders. At present, the activities of the money lenders have been restricted by RBI due to their exploitative tendencies.

**iii) Unregulated Non-Bank Financial Intermediaries :** They include Chit funds, Nidhi, loan companies etc. Under Chit funds, members make regular contribution to the fund. Bids or draws are made on the basis of a criteria mutually agreed upon by the members. Accordingly, the collected fund is given to the chosen member. Chit funds mostly operate in Kerala and Tamil Nadu. Nidhi is also a type of mutual benefit fund thriving on the contribution of its members. Loans are provided to members at reasonable rates of interest. Loan companies are finance companies. They provide loans to traders, small-scale industries and self-employed persons. Being unregulated, they charge a high rate of interest on loans.




**Do you know?**

**Money market instruments :**

The following instruments are traded in the money market :

- **Call / Notice Money Market :** When money is borrowed or lent for a day, it is known as call (overnight) money. When money is borrowed or lent for more than a day up to 14 days, it is known as notice money.
- **Treasury Bills (TBs) :** They are short term instruments issued by the RBI on

behalf of the government to meet temporary liquidity shortfalls.

- **Commercial Papers (CPs) :** It is an unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period.
- **Certificate of Deposits (CDs) :** They are unsecured, negotiable instruments in bearer form issued by commercial banks and development finance institutions.
- **Commercial Bills (CBs) :** They are short term, negotiable and self-liquidating instruments with low risk.

### Role of Money Market in India :

The following points outline the role of the money market in India :

1) **Short-term requirements of borrowers :** Money market provides reasonable access for meeting the short-term financial needs of the borrowers at realistic prices.
2) **Liquidity Management :** Money market is a dynamic market. It facilitates better management of liquidity and money in the economy by the monetary authorities. This, in turn, leads to economic stability and development of the country.
3) **Portfolio Management :** Money market deals with different types of financial instruments that are designed to suit the risk and return preferences of the investors. This enables the investors to hold a portfolio of different financial assets which in turn, helps in minimizing risk and maximizing returns.
4) **Equilibrating mechanism :** Through rational allocation of resources and mobilization of savings into investment channels, money market helps to establish equilibrium between the demand for and supply of short-term funds.
5) **Financial requirements of the Government :** Money market helps the Government to fulfil its short term financial requirements on the basis of Treasury Bills.
6) **Implementation of Monetary policy :** Monetary policy is implemented by the central bank. It aims at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth. A well-developed money market ensures successful implementation of the monetary policy. It guides the central bank in developing an appropriate interest policy.
7) **Economizes the use of cash :** Money market deals with various financial instruments that are close substitutes of money and not actual money. Thus, it economizes the use of cash.
8) **Growth of Commerce, Industry and Trade:** Money market facilitates discounting bills of exchange to local and international traders who are in urgent need of short-term funds. It also provides working capital for agriculture and small scale industries.

### Problems of the Indian Money Market :

Compared to advanced countries, the Indian money market is less developed in terms of volume and liquidity. Following points explain the problems of the Indian Money Market :

1) **Dual Structure of the Money Market :** Presence of both, the organized and unorganized sector in the money market leads to disintegration, lack of transparency and increased volatility. The unorganized markets lack co-ordination and do not come under the direct control and supervision of the RBI.
2) **Lack of uniformity in the rates of interest :** The money market comprises of various entities such as commercial banks, co-operative banks, non-bank finance companies, development finance

institutions, investment companies etc. The category of borrowers is also different.

3) **Shortage of funds :** Money market faces shortage of funds due to inadequate savings. Low per capita income, poor banking habits among the people, indulgence in wasteful consumption, inadequate banking facilities in the rural areas etc. have also been responsible for the paucity of funds in the money market.

4) **Seasonal fluctuations :** Demand for funds varies as per the seasons. During the peak season, from October to June, finance is required on a large scale for various purposes such as trading in agricultural produce, investment in business activities etc. This results in wide fluctuations in the money market.

5) **Lack of financial inclusion :** Banking facilities in the country are still inadequate and inaccessible to the vulnerable groups such as the weaker sections and the low income groups. This shows lack of financial inclusion.

6) **Delays in technological upgradation :** Use of advanced technology is a pre-requisite for the development and smooth functioning of financial markets. Delays in upgradation of technology hampers the working of the money market.

### Reforms introduced in the Money Market :

Following are some of the important reforms introduced in the money market :

1) Introduction of new instruments such as Treasury bills of varying maturity periods, Commercial Papers (CPs), Certificate of Deposits (CDs) and Money Market Mutual Funds (MMMFs).
2) RBI Repos and Reverse Repos were introduced under the Liquidity Adjustment Facility (LAF).
3) Interest rates to be largely determined by market forces.
4) National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS) were introduced as an improved payment infrastructure.
5) Electronic dealing system was introduced to bring about technological upgradation.

**Do you know?**

Recent developments in banking sector :

- **Small Finance Banks** : Small finance banks aim to promote financial inclusion through supply of credit to small business units, small and marginal farmers, micro and small industries and other unorganized sector entities through high technology but low cost operations.
- **Payments Banks :** A payments bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple words, it can carry out most banking operations but can't advance loans or issue credit cards. It can accept demand deposits (up to ₹ 1 lakh), offer remittance services, mobile payments / transfers / purchases and other banking services like ATM/debit cards, net banking and third party fund transfers.
- **Universal Banks :** Universal banks refer to those banks that offer a wide range of financial services, such as, commercial banking and investment banking and other activities especially insurance. It is a multi-purpose and multi-functional financial supermarket providing both banking and financial services through a single window.
- **Local Area Banks :** Local area bank scheme was introduced in August, 1996 to enable mobilization of rural savings by local institutions especially private local banks and make them available for investments in the local areas. This helps to bridge the gap in credit availability and strengthen the institutional credit framework in rural and semi-urban areas.

## B) Capital Market in India :

### Meaning :

Capital market is a market for long term funds both equity and debt raised within and outside the country. It is also an important constituent of the financial system. Development of an effective capital market is necessary for promoting more investments as well as achieving economic growth. The demand for long term funds comes from agriculture, trade and industry. Individual savers, corporate savings, banks, insurance companies, specialized financial institutions are the suppliers of long term funds.

**Fig. 9.4**

### Structure of Capital Market in India :

The capital market in India comprises of the Gilt-Edged or the Government Securities Market, Industrial Securities Market, Development Financial Institutions and Financial Intermediaries.

Fig. 9.5, explains the structure of India's Capital Market.

1) **Government Securities Market :** It is also known as the gilt-edged market. It deals in government and semi-government securities. Such securities carry a fixed rate of interest.

2) **Industrial Securities Market :** It deals with the shares and debentures issued by old and new companies. It is further divided into Primary Market (New Issues) and Secondary Market (Old Issues). Primary market helps to raise fresh capital through sale of shares and debentures. Secondary market deals with securities already issued by companies. Secondary markets function through stock exchanges.

   Stock exchange is an important constituent of the capital market. It is an association or organization in which stocks, bonds, commodities etc are traded. Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are the premier stock exchanges in the country.

3) **Development Financial Institutions (DFIs) :** They provide medium term and long term financial assistance to the private sector. They include Industrial Finance Corporation of India (IFCI), Industrial Investment Bank of India (IIBI), EXIM Bank etc.

4) **Financial Intermediaries :** Financial intermediary is an organization which acts as a link between the investor and the

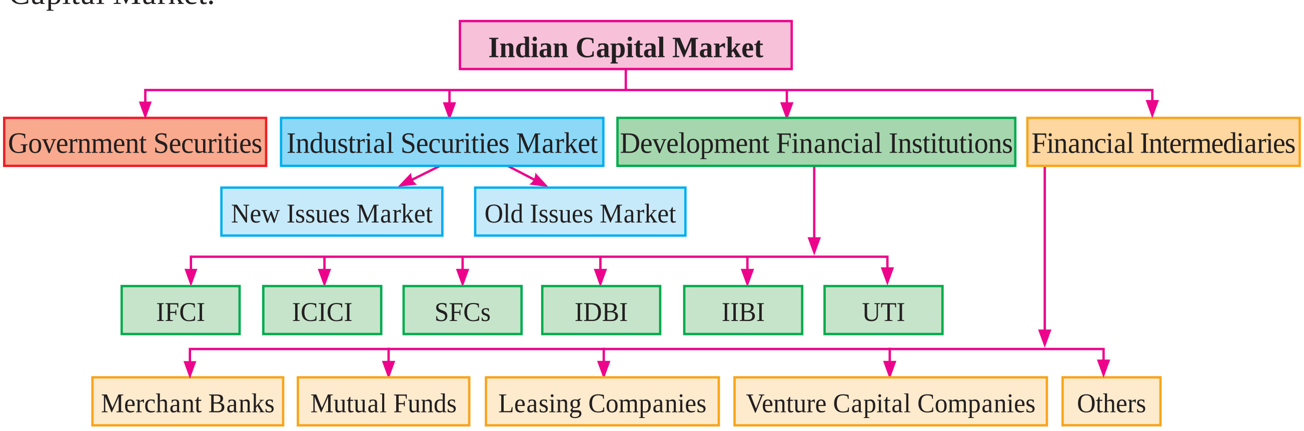



**Fig. 9.5**

borrower to meet the financial objectives of both the parties. They consist of merchant banks, mutual funds, leasing companies, venture capital companies etc.

## Role of Capital Market in India :

1) **Mobilizes long term savings :** There is an increasing demand for investment funds by industrial organizations and the government. But the availability of financial resources is insufficient to meet this growing demand. Capital market helps to mobilize long term savings from various section of the population through the sale of securities.

2) **Provides equity capital :** Capital market provides equity capital or share capital to entrepreneurs which could be used to purchase assets as well as fund business operations.

3) **Operational efficiency :** Capital market helps to achieve operational efficiency by lowering the transaction costs, simplifying transaction procedures, lowering settlement timings in purchase and sale of stocks.

4) **Quick valuation :** Capital market helps to determine a fair and quick value of both equity (shares) and debt (bonds, debentures) instruments.

5) **Integration :** Capital market leads to integration among real and financial sectors, equity and debt instruments, government and private sector, domestic and external funds etc.

## Problems of the Capital Market :

Following points explain the problems faced by the Indian Capital Market :

1) **Financial Scams :** Increasing number of financial frauds have resulted in irreparable loss for the capital market. Besides this, it has also lead to public distrust and loss of confidence among the individual investors.

2) **Insider trading and price manipulation :** Insider trading means buying or selling of a security by someone who has access to non-public information or 'unpublished information' for personal benefit. Price manipulation or price rigging on the other hand means to simply raise the prices of shares through buying and selling of shares within certain individuals themselves for personal gains. Such illegal practices have also affected the smooth functioning of capital market.

3) **Inadequate debt instruments :** Debt instruments include bonds, debentures etc. There is not much trading in the debt securities due to narrow investor base, high cost of issuance, lack of accessibility to small and medium enterprises.

4) **Decline in the volume of trade :** Regional stock exchanges have witnessed a sharp decline in the volume of trade because investors prefer to trade in securities listed in premier stock exchanges like BSE, NSE etc.

5) **Lack of informational efficiency :** A market is said to be informationally efficient if a company's stock prices incorporate all the available information into the current prices. However, the stock market in India lacks informational efficiency compared to advanced countries.

**Find out :**

List of regional stock exchanges in India.

## Reforms introduced in the Capital Market :

Following are some of the important reforms introduced in the capital market :

1) Securities and Exchange Board of India (SEBI) was established in 1988 but given statutory powers in 1992 to protect the interest of the investors and promote the development of the securities market.

2) National Stock Exchange (NSE), the leading stock exchange in India was established in 1992.

3) Computerized Screen Based Trading System (SBTS) was introduced as a part of modernization.

4) Demat account has been introduced since 1996 to facilitate easy purchase and sale of shares by the investors through the electronic method.

5) Increased access to global funds by Indian companies was permitted through American Depository Receipts (ADRs) and Global Depository Receipts (GDRs).

6) Investor Education and Protection Fund (IEPF) was established in 2001 to promote investors' awareness and protecting the interest of the investors.

**Do you know?**

**Economic Policy in an Economy**

| Monetary Policy | Fiscal Policy |
|---|---|
| Implemented by Central Bank | Implemented by Central government |
| Deals with Money Supply | Deals with taxes, expenditure etc. |
| Aims at financial stability | Aims at economic and social development |
| Quantitative in nature | Qualitative in nature |

## EXERCISE

### Q. 1. Complete the following statements :

1) Development financial institutions were established to .............
   a) provide short term funds.
   b) develop industry, agriculture and other key sectors.
   c) regulate the money market.
   d) regulate the capital market.

2) Money market faces shortage of funds due to ...........
   a) inadequate savings.
   b) growing demand for cash.
   c) presence of unorganized sector.
   d) financial mismanagement.

3) Individual investors have lost confidence in the capital market due to ...........
   a) lack of financial instruments.
   b) high transaction costs.
   c) low returns.
   d) financial scams.

4) Commercial banks act as intermediaries in the financial system to ...........
   a) make profits
   b) accelerate the country's economic growth.
   c) mobilise the savings and allocating them to various sectors of the economy.
   d) control the credit.

### Q. 2. Complete the correlation :

1) Money market : Short term funds :: ☐ : Long term funds

2) ☐ : Central Bank :: SBI : Commercial Bank

3) Co-operative banks : Organized sector :: Indigenous bankers : ☐

4) Primary market : ☐ :: Secondary market : Old issues

### Q. 3. Find the odd word :

1) Types of Bank Accounts : Saving a/c, Demat a/c, Recurring a/c, Current a/c

2) Unregulated Financial intermediates : Mutual fund, Nidhi, Chit fund, Loan Companies

3) Financial Assets : Bonds, Land, Govt. Securities, Derivatives

4) Quantitative Tools : Bank rate, Open market operations, Foreign Exchange rate, Variable reserve ratios

### Q. 4. Assertion and Reasoning :

1) **Assertion (A) :** Money market economizes use of cash

   **Reasoning (R) :** Money market deals with financial instruments that are close substitutes of money

**Options :** 1) (A) is True, but (R) is False

2) (A) is False, but (R) is True

3) Both (A) and (R) are True and (R) is the correct explanation of (A)

4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

2) **Assertion (A) :** Regional stock exchanges have witnessed a sharp decline in the volume of trade.

   **Reasoning (R) :** Investors prefer to trade in securities listed in premier stock exchanges like BSE, NSE etc.

**Options :** 1) (A) is True, but (R) is False

2) (A) is False, but (R) is True

3) Both (A) and (R) are True and (R) is the correct explanation of (A)

4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

3) **Assertion (A) :** The unorganized sector of the money market lacks transparency.

   **Reasoning (R) :** Activities of the unorganized sector are largely confined to rural areas.

**Options :** 1) (A) is True, but (R) is False

2) (A) is False, but (R) is True

3) Both (A) and (R) are True and (R) is the correct explanation of (A)

4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

4) **Assertion (A) :** Foreign exchange management and control is undertaken by commercial banks.

   **Reasoning (R) :** RBI has to maintain the official rate of exchange of rupee and ensure its stability.

**Options :** 1) (A) is True, but (R) is False

2) (A) is False, but (R) is True

3) Both (A) and (R) are True and (R) is the correct explanation of (A)

4) Both (A) and (R) are True and (R) is not the correct explanation of (A)

### Q. 5. Identify and explain the concepts from the given illustrations :

1) Raghu's father regularly invests his money in stocks and bonds.
2) Sara makes a monthly contribution to a fund jointly created by her friends. The collected fund is then given to a chosen member through lucky draw.
3) Tina deposited a lumpsum amount of ₹ 50,000 in the bank for a period of one year.
4) ABC bank provides d-mat facility, safe deposit lockers, internet banking facilities to its customers.

### Q. 6. Distinguish between :

1) Money market and Capital market.
2) Demand deposit and Time deposit.
3) Organized sector and Unorganized sector of money market.

### Q. 7. Answer the following :

1) Explain the problems faced by the money market in India.
2) Explain the functions of commercial bank.
3) Explain the role of capital market in India.
4) Explain the problems of capital market in India.

### Q. 8. Answer in detail :

1) Explain the role of money market in India.
2) Explain the functions of RBI.