



## **[Frequently Asked Questions]**

### **Financial Markets in India - I**

<b>Subject:</b>	Business Economics
<b>Course:</b>	B. A., 4th Semester, Undergraduate
<b>Paper No. &amp; Title:</b>	Paper – 404 Indian Financial System
<b>Unit No. &amp; Title:</b>	Unit – 1 Financial Markets in India
<b>Lecture No. &amp; Title:</b>	Lecture – 1 Financial Markets in India - I

## **Frequently Asked Questions**

### **Q1. Which are the four components of financial system?**

**A1.** There are four major components of financial system which are financial markets, financial institutions, financial services and financial instruments.

### **Q2. What are financial markets?**

**A2.** Financial markets may be defined as, "A market which is an aggregate of possible buyers and sellers of financial securities, commodities and other fungible items as well as the transaction between them."

### **Q3. Explain the borrowing and lending role of financial markets.**

**A3.** Financial markets allow the parties to transfer the funds from one agent to another for either investment purpose or consumption purposes. It helps the borrowers and lenders to come together at same platform.

### **Q4. What are capital markets?**

**A4.** Capital markets are markets for buying and selling equity and debt instruments. Capital markets include primary markets, where new stock and bond issues are sold to investors, and secondary markets, which trade existing securities.

### **Q5. Explain capital market vs. stock market.**

**A5.**

- Stock market sells equity securities, which are shares, and capital markets sell both equity and debt securities.

- The stock market is a component of the capital market, and both these markets serve the common purpose of providing opportunities for firms to raise capital.
- The capital raised from a stock market is purely equity capital whereas, in a capital market, one may raise equity capital as well as debt capital.

**Q6. Name few of the participants of financial market.**

**A6.** In the organised sector of financial markets participants are-

1. Banks
2. Government
3. Mutual funds
4. Brokers
5. Insurance companies
6. Financial Companies

**Q7. How financial market does condenses the cost of transactions?**

**A7.** As different instruments are issued and used in the market at regular intervals so the transactions costs tend to increase but with the help of regulatory bodies of the market.

**Q8. How money market does differs from capital market?**

**A8.** Money market is the market for short term fund and handles short-term financial assets (less than a year) whereas capital markets take care of those financial assets which have maturity period of more than an year and deals with long term funds.

**Q9. Explain institutional investor as participant of Financial market.**

**A9.** An institutional investor is an entity, company, mutual fund, insurance corporations, brokerage, or other such group that has a large amount of money or assets to invest. These firms typically represent investors who might be retail or other firms.

**Q10. How does financial market helps in utilization of savings?**

**A10.** Obtaining funds from the savers or surplus units such as household individuals, business firms, public sector units, central government, state governments, etc. is an important role played by financial markets. In the absence of financial system, the savings would never be mobilised and channelized to productive investments from the unproductive ones.