[Frequently Asked Questions]

Financial Markets in India - II

Subject:	Business Economics
Course:	B. A., 4th Semester, Undergraduate
Paper No. & Title:	Paper – 404 Indian Financial System
Unit No. & Title:	Unit – 1 Financial Markets in India
Lecture No. & Title:	Lecture – 2 Financial Markets in India - II

Frequently Asked Questions

Q1. Which are the areas where the link between financial markets and economy can be made?

A1.

- Funnelling savings to firm
- Improving the allocation of capital
- Affecting the saving rate
- Risk sharing
- Household borrowing
- Interest rate effects

Q2. How does saving rate is affected by financial market?

A2. The financial development can affect growth is by shifting the saving rates. The financial development may also reduce saving, and thereby growth. As capital markets develop, households gain better insurance against granted shocks and better diversification of rate-of-return risk. Credit becomes more readily and cheaply available. It also narrows the distance between the interest rate paid by firms and that received by households.

Q3. Explain the timeline of RBI

A3. RBI was established on 1st April 1935, 80 years ago in accordance with the provisions of the RBI Act, 1934. RBI was nationalized on 1st January 1949. Its central office is located in Mumbai since 1937.

Q4. Which international stock exchanges have Indian companies listed on them?

A4. Ten major Indian companies listed on New York stock exchange (NYSE) and NASDAQ account for a 19 per cent weight in the benchmark 30-scrip stock price index of the BSE. Fifty Indian companies are listed on the London Stock Exchange and Luxembourg Stock exchange.

Q5. Does RBI plays the role of issuer of currency?

A5. Yes RBI does play a role of Issuer of currency with permission been granted to RBI by the preamble to the RBI act, 1934. It acts as a sole currency authority under section 22 for issue of bank notes without any stamp duty.

Q6. Was SEBI autonomous and statutory body from its inception?

A6. The **Securities and Exchange Board of India** (**SEBI**) is the regulator for the securities market in India. It was established in the year 1988 and given statutory powers & became autonomous on 12 April 1992 through the SEBI Act, 1992.

Q7. Rights of which three parties are protected by SEBI

A7. SEBI has to be responsive to the needs of three groups, which constitute the market:

- the issuers of securities
- the investors
- the market intermediaries

Q8. Which two roles are played by SEBI?

A8. The two roles played by SEBI which are Regulatory and Developmental. Regulatory role defines the duties regarding sound working of market and protecting the investors rights and developmental promotes the creation and distribution of information and educating the people involved in Financial markets.

Q9. Who decides the policy issue in the market?

A9. In India the high level co-ordination committee for financial markets **(HLCCFM**) discusses various policy level issues. It requires inter-regulatory coordination between the regulators in financial market like **RBI, SEBI, IRDA, PFDRA** etc.

Q10. Name the different types of role played by RBI?

A10. The different types of roles played by RBI are: (i) Banker to the government (ii) Credit controller (iii) Issuer of currency (iv) Manager of exchange control (v) Monetary authority of country

Q11. Explain the benefits and risks of financial integration

A11. Financial integration usually comes with several benefits like development of markets and institutions. These are associated with effective price discovery leading to higher savings, more investment and economic progress. With benefits several risks also come such as contagion and associated disruption of economic activities. Such were experienced during the Asian crisis in late 1990s and recently in 2008 national markets declined badly due to credit market developments in United States.