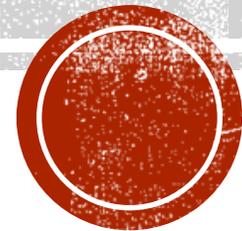


MONEY MARKET

Constituents, functions, and significance, participants.



According to **Geoffrey**, “money market is the collective name given to the various firms and institutions that deal in the various grades of the near money.”

As per **RBI** definitions, “ A market for short-term financial assets that are close substitutes for money, facilitates the exchange of money in primary and secondary markets”.



Instrument of Money Market

A variety of instrument are available in a developed money market. In India till 1986, only a few instrument were available. They were

- ❖ Treasury bills
- ❖ Money at call and short notice in the call loan market.
- ❖ Commercial bills, promissory notes in the bill market

New instrument

Now, the following new instruments are available:

- ❖ Commercial papers.
- ❖ Certificate of deposit.
- ❖ Banker's Acceptance
- ❖ Repurchase agreement



Certificate of deposit (CD)

- ❑ A CD is a time deposit with a bank. Like most time deposits, funds can not be withdrawn before maturity without paying a penalty.
- ❑ CD's have a specific maturity date, interest rate, and it can be issued in any denomination.
- ❑ The main advantage of CD is its safety.
- ❑ Anyone can earn more than a savings account interest.



Banker's Acceptance (BA)

- Banker's Acceptance (BA) is a significant instrument in the money market, serving as a cornerstone for facilitating international trade and short-term financing.
- It is a promissory note issued by a firm and guaranteed by a bank, it represents the bank's promise to pay a specified amount at a future date, typically within six months.
- This guarantee not only endorses the reliability of the debtor but also provides a secure, negotiable instrument that can be traded in the secondary market.
- The acceptance is akin to a post-dated check but holds the bank's credit standing, which usually exceeds that of the debtor, making it a highly liquid



- A repurchase agreement (repo)
- A repurchase agreement (repo) is a short-term agreement to sell securities and repurchase them later at a slightly higher price.
- The party selling the repo is effectively borrowing whatever is traded for the securities, and the implicit interest paid is the difference in price from the initial sale to repurchase.
- Repos and reverse repos are for short-term borrowing and lending, often from overnight to 48 hours.
- The implicit interest rate on these agreements is known as the repo rate.
- The U.S. Federal Reserve uses repos and reverse repos to manage the money supply and influence short-term interest rates, a crucial part of the Fed's monetary policymaking.



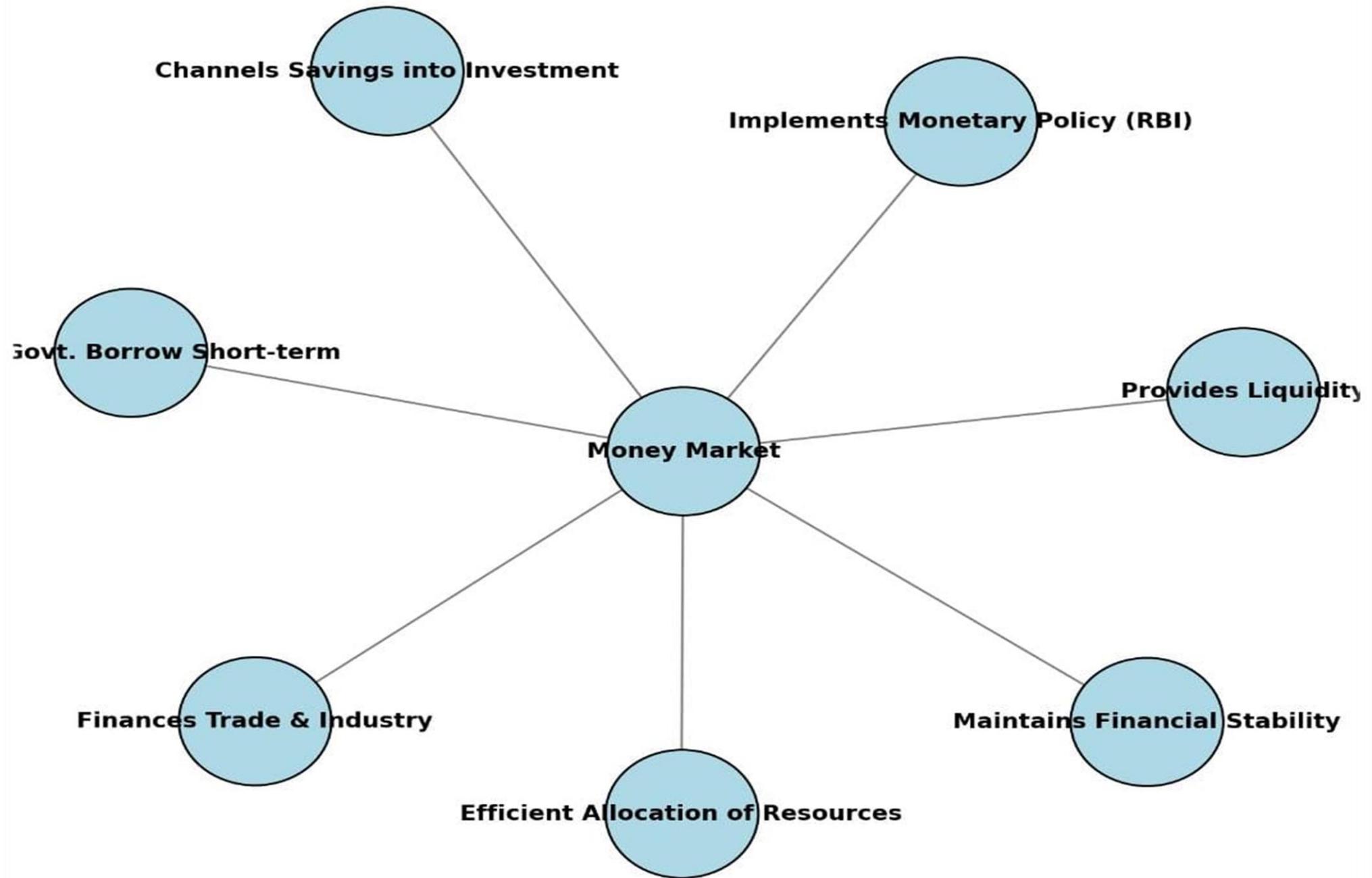
Composition of Money Market

The money market is not a single homogeneous market. It consists of a number of sub-markets which collectively constitute the money market. There should be competition within each sub-market as well as between different sub-markets. The following are the main sub-markets of a money market:

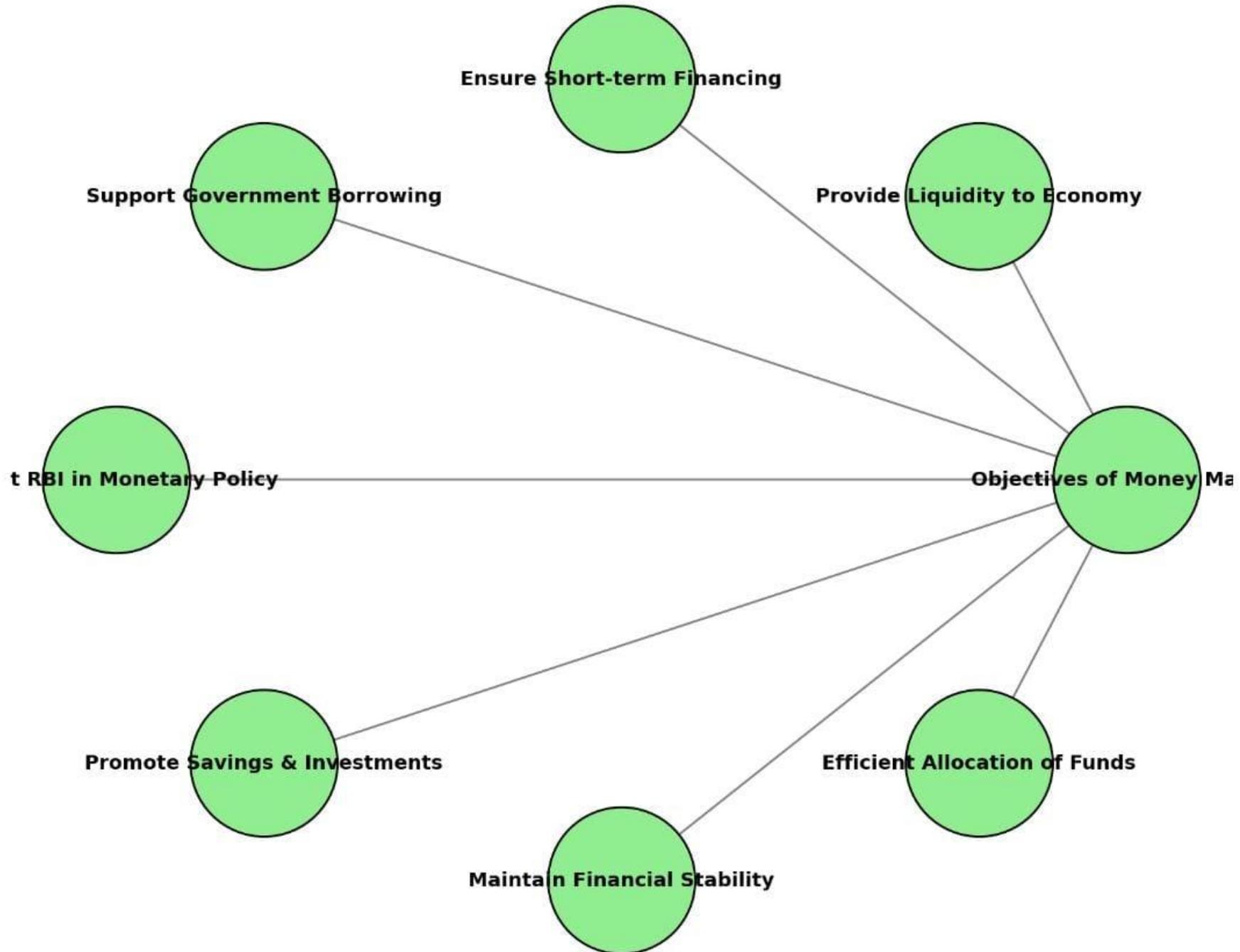
- **Call Money Market.**
- **Commercial Bills Market or Discount Market.**
- **Acceptance Market.**
- **Treasury bill Market.**

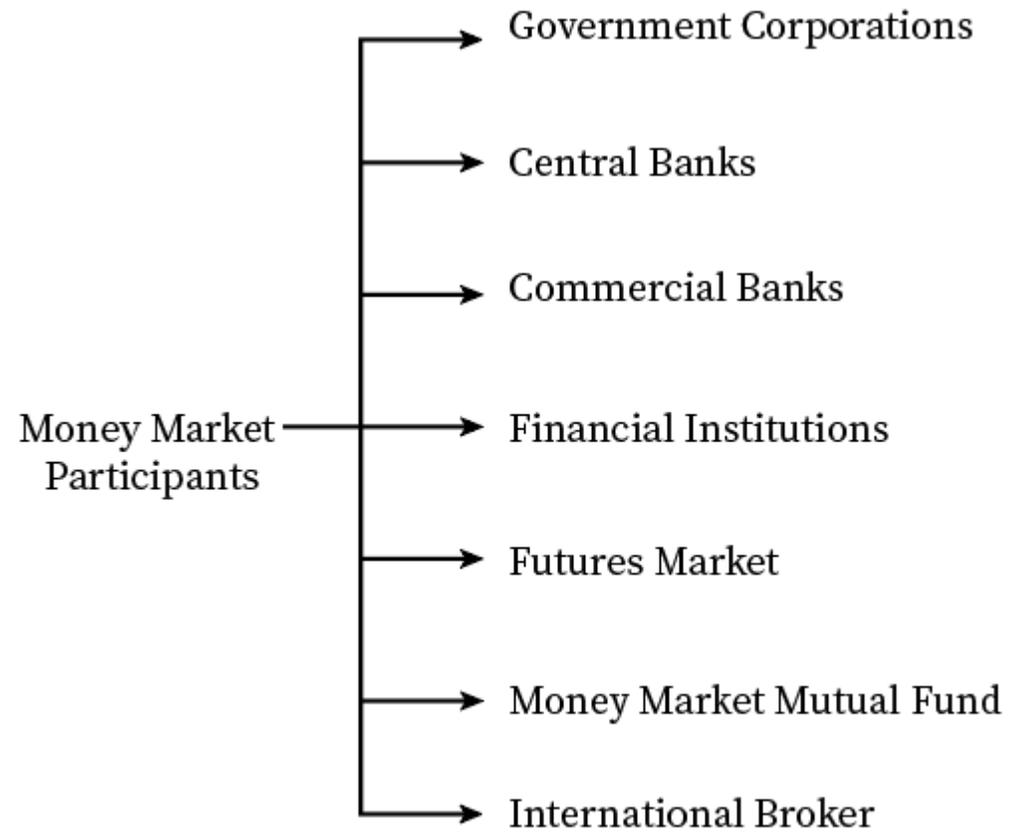


Functions of Money Market



Flowchart: Objectives of Money Market





PLAYERS OF MM	ROLE
Central Bank	Intermediary
Government	Borrowers/ Issuers
Bank	Borrowers/ Issuers
Discount houses	Markets
Financial institutions	Borrowers/ Issuers
Mutual funds	Lenders/ Investors
FII's	Investors
Dealers	Intermediaries
Corporate	issuers

