Lecture-5

Financial Instruments

Financial instruments are key component of financial system. These are the products which are traded in financial market be it primary market, capital market and derivative market. There are wide range of securities available in market as the needs of credit seekers and investors vary from each other. Financial instruments are classified into three categories that are primary market instruments, capital market instruments and derivative instruments.

Financial instruments refer to those documents which represents financial claims on assets. As discussed earlier, financial asset refers to a claim to a claim to the repayment of a certain sum of money at the end of a specified period together with interest or dividend. Examples: Bill of exchange, Promissory Note, Treasury Bill.

Financial securities can be classified into:
(i) Primary or direct securities.
(ii) Secondary or indirect securities.

Primary Securities
These are securities directly issued by the ultimate investors to the ultimate savers. Eg.shares and debentures issued directly to the public.

Secondary Securities
These are securities issued by some intermediaries called financial intermediaries to the ultimate savers. Eg. Unit Trust of India and mutual funds issue securities in the form of units to the public and the money pooled is invested in companies.

Again these securities may be classified on the basis of duration as follows:
(i) Short - term securities
(ii) Medium term securities
(iii) Long - term securities.

Short - term securities are those which mature within a period of one year.
Eg, Bill of Exchange, Treasury bill, etc.
Medium term securities are those which have a maturity period ranging between one and five years.Eg.Debentures maturing within a period of 5 years,
Long - term securities are those which have a maturity period of more than five years. Eg, Government Bonds maturing after 10 years.

Financial services

Financial services refer to economic services provided by various financial institutions that deal with the management of money. It is an intangible product of financial markets like loans, insurance, stocks, credit card, etc. Financial services are products of institutions such as banking firms, insurance companies, investment funds, credit unions, brokerage firms, and consumer finance companies.

It is a key component of the financial system that facilitates financial transactions in an economy. Financial services are an essential tool for economic growth as it brings together the one who needs funds and those who can supply funds.

It enables peoples in raising their standards of livings by providing them with a facility of purchasing various products on hire purchase. Financial services act as a barrier against risk arising from various unforeseen activities by insuring people against losses. These services are consumer-oriented as these are designed and provided in accordance with the needs of customers