

FACULTY OF JURIDICAL SCIENCES

Lecture-15



CAPITAL MARKET

Capital market is a place where buyers and sellers indulge in trade (buying/selling) of financial securities like bonds, stocks, etc. The trading is undertaken by participants such as individuals and institutions.

Capital market trades mostly in long-term securities. The magnitude of a nation's capital markets is directly interconnected to the size of its economy which means that ripples in one corner can cause major waves somewhere else.

- Capital markets refer to the venues where funds are exchanged between suppliers of capital and those who demand capital for use.
- Primary capital markets are where new securities are issued and sold. The secondary market is where previously issued securities are traded between investors.
- The best-known capital markets include the stock market and the bond markets.

Capital markets commonly referred to as the stock markets have been in existence for centuries. The British East India Company was the first company to invite the public to buy shares in the company. Since then, over the years, markets have gone through tremendous changes. The way the market works, the asset classes, the framework of the exchanges and everything has been evolving over time. The changes have been brought in gradually according to the convenience of the investors and market participants.

Types of Capital Market

Primary Market

Primary market is the market for new shares or securities. A primary market is one in which a company issues new securities in exchange for cash from an investor (buyer). It deals with trade of new issues of stocks and other securities sold to the investors.

Secondary Market

Secondary market deals with the exchange of prevailing or previously-issued securities among investors. Once new securities have been sold in the primary market, an efficient manner must exist for their resale. Secondary markets give investors the means to resell/ trade existing securities. Another important division in the capital market is made on the basis of the nature of security sold or bought, i.e. stock market and bond market.

Functions of Capital Market

- 1. Economic Growth:** Capital Markets help to accelerate the process of economic growth. It reflects the general condition of the economy. The capital Market helps in the proper allocation of resources from the people who have surplus capital to the people who are in need of capital. So, we can say that it helps in the expansion of industry and trade of both public and private sectors leading to balanced economic growth in the country.
- 2. Promotes Saving Habits:** After the development of Capital Markets, the taxation system, and the banking institutions provide facilities and provisions to the investors to save more. In the absence of Capital Markets, they might have invested in unproductive assets like land or gold or might have indulged in unnecessary spending
- 3. Stable and Systematic Security prices:** Apart from the mobilization of funds, Capital Markets help to stabilize the prices of stocks. Reduction in speculative activities and providing capital to borrowers at a lower interest rate help in the stabilization of the security prices.
- 4. Availability of Funds:** Investments are made in Capital Markets on a continuous basis. Both the buyers and sellers interact and trade their capital and assets through an online platform. Stock Exchanges like NSE and BSE provide the platform for this and thus the transactions in the capital market become easy.

Features of Capital Market

1. Serves as a link between Savers and Investment Opportunities:

The capital market serves as a crucial link between the saving and investment process as it transfers money from savers to entrepreneurial borrowers.

2. Long term Investment:

It helps the investors to invest their hard-earned money in long-term investments.

3. Helps in Capital formation:

The capital market offers opportunities for those investors who have a surplus amount of money and want to park their money in some type of investment and also take the benefit of the power of compounding.

4. Helps Intermediaries:

While transferring shares and money from one investor to another, it takes help from intermediaries like brokers, banks, etc. thus helping them in conducting their business.

5. Rules and Regulations:

The capital markets operate under the regulation and rules of the Government thus making it a safe place to trade.