UNIT 1- Money Market and Its Instruments In India

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Money Market

The money market is a market for short - term funds, which deals in financial assets whose period of maturity is upto one year. It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes,
commercial paper, treasury bills, etc. These financial instruments are close substitute of money. These instruments help the business units, other organisations and the Government to borrow the funds to meet their short-term requirement.

The Indian money market consists of Reserve Bank of India, Commercial banks, Co-operative banks, and other specialised financial institutions. The Reserve Bank of India is the leader of the money market in India. Some Non-Banking Financial Companies (NBFCs) and financial institutions like LIC,GIC,UTI, etc. also operate etc. also operate in the Indian money market.

Money Market Instruments

Following are some of the important money market instruments or securities.

a. ***Call Money***

Call money is mainly used by the banks to meet their temporary requirement of cash. They borrow and lend money from each other normally on a daily basis. It is repayable on demand and its maturity period varies in between one day to a fortnight. The rate of interest paid on call money loan is known as call rate.

*b. **Treasury Bill***

A treasury bill is a promissory note issued by the RBI to meet the short-term requirement of funds. Treasury bills are highly liquid instruments. that means, at any time the holder of treasury bills can transfer of or get it discounted from RBI, These bills are normally issued at a price. These bills are normally issued at a price less than their face value of the treasury bill represents the interest on the investment. These bills are secured instruments and are issued for a period of not exceeding 364 days. Banks, Financial institutions and corporations normally play major role in the Treasury bill market.

*c. **Commercial Paper***

Commercial paper (CP) is a popular instruments for financing working capital requirements of companies. The CP is an unsecured instruments issued in the form of promissory note. This instrument was introduced in 1990 to enable the corporate borrowers to raise short-term funds. It can be issued for period ranging from 15 days to one year. Commercial papers are transferable by endorsement and delivery. The highly reputed companies (Blue Chip companies) are the major player of commercial paper market.

*d. **Certificate of Deposit***

Certificate of Deposit (CDs) are short-term instruments issued by Commercial Banks and special Financial Institutions (SFIs), which are freely transferable from one party to another. The maturity period of CDs ranges from 91 days to one year. These can be issued to individuals, co-operatives and companies.

*e. **Trade Bill***

Normally the traders buy goods credit. Th3e sellers get payment after the end of the credit period . But if any seller does not want to wait or in immediate need of money he/she can draw a bill of exchange in favour of the buyer. When buyer accepts the bill it becomes a negotiable instrument and is termed as bill of exchange o trade bill. This trade bill can now be discounted with a bank before its maturity. On maturity the bank gets the payment from the drawee i.e., the buyer of goods. When trade bills are accepted by Commercial Banks it is known as Commercial Bills, So trade bill is as instrument, which enables the drawer of the bill to get funds for short period to meet the working capital needs.