Research Paper
Impact Factor: 4. 695
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

AN OVERVIEW OF MONEY MARKET

G. Venkateshwaran*   J. Prabhuraj*
**Assistant Professors, Department of Commerce, FSH, SRM University, Chennai.*

Abstract
Financial Services Plays a Predominant Role in Economic Development. The money market is the arena in which financial institutions make available to a wide range of borrowers and investors the opportunity to buy and sell various forms of short-term securities. Sound Money market is vital at each stage of business to provide sufficient capital to meet the requirements of newly started business. The ultimate focus is to bring out an overview of money market, and the objective is to create better industrial relations and promotion of foreign trade.. This study reveals how the financial institutions such as Central bank and RBI influence the status of money market.

Introduction
Finance is the study of the creation and management of wealth and it is the Backbone of every Business. Finance major learns how to evaluate and control risk. The finance program prepares students for a variety of positions in financial and non-financial enterprises. Career opportunities exist in commercial banking and financial institutions and in the regulatory agencies that oversee them. Additional opportunities exist in corporate finance including positions in financial analysis, cash management, and credit management. Investment-oriented students can explore opportunities in brokerage, bank trust and institution portfolio management. People with degrees in finance have careers as commercial bankers, investment bankers, loan officers, financial analysts, insurance underwriters, stockbrokers, institutional portfolio managers, credit managers, insurance and risk managers, and financial planners.

Financing
The act of providing funds for business activities, making purchases or investing. Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals.

There is a large variety of financing techniques that businesses and consumers can use to receive financing; these techniques range from IPOs to bank loans. The use of financing is vital in any economic system as it allows consumers to purchase products out of their immediate reach, like houses, and businesses to finance large investment projects.

Investment
An asset or item that is purchased with the hope that it will generate income or appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

The building of a factory used to produce goods and the investment one makes by going to college or university is both examples of investments in the economic sense.

In the financial sense investments include the purchase of bonds, stocks or real estate property. Be sure not to get 'making an investment' and 'speculating' confused. Investing usually involves the creation of wealth whereas speculating is often a zero-sum game; wealth is not created. Although speculators are often making informed decisions, speculation cannot usually be categorized as traditional investing.

Money Market
A segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), banker's acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos).

The money market is used by a wide array of participants, from a company raising money by selling commercial paper into the market to an investor purchasing CDs as a safe place to park money in the short term. The money market is typically seen as a safe place to put money due the highly liquid nature of the securities and short maturities, but there are risks in the market that any investor needs to be aware of including the risk of default on securities such as commercial paper.

Financial Market
Broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade.

Some financial markets only allow participants that meet certain criteria, which can be based on factors like the amount of money held, the investor's geographical location, knowledge of the markets or the profession of the participant.

Financial markets can be found in nearly every nation in the world. Some are very small, with only a few participants, while others – like the New York Stock Exchange (NYSE) and the forex markets – trade trillions of dollars daily.

Most financial markets have periods of heavy trading and demand for securities; in these periods, prices may rise above historical norms. The converse is also true – downturns may cause prices to fall past levels of intrinsic value, based on low levels of demand or other macroeconomic forces like tax rates, national production or employment levels.

Information transparency is important to increase the confidence of participants and therefore foster an efficient financial marketplace.

Money Market Instruments

The money market is the arena in which financial institutions make available to a broad range of borrowers and investors the opportunity to buy and sell various forms of short-term securities. There is no physical "money market." Instead it is an informal network of banks and traders linked by telephones, fax machines, and computers. Money markets exist both in the United States and abroad.

The short-term debts and securities sold on the money markets—which are known as money market instruments—have maturities ranging from one day to one year and are extremely liquid. Treasury bills, federal agency notes, certificates of deposit (CDs), eurodollar deposits, commercial paper, bankers' acceptances, and repurchase agreements are examples of instruments. The suppliers of funds for money market instruments are institutions and individuals with a preference for the highest liquidity and the lowest risk.

The money market is important for businesses because it allows companies with a temporary cash surplus to invest in short-term securities; conversely, companies with a temporary cash shortfall can sell securities or borrow funds on a short-term basis. In essence the market acts as a repository for short-term funds. Large corporations generally handle their own short-term financial transactions; they participate in the market through dealers. Small businesses, on the other hand, often choose to invest in money-market funds, which are professionally managed mutual funds consisting only of short-term securities.
Although securities purchased on the money market carry less risk than long-term debt, they are still not entirely risk free. After all, banks do sometimes fail, and the fortunes of companies can change rather rapidly. The low risk is associated with lender selectivity. The lender who offers funds with almost instant maturities ("tomorrow") cannot spend too much time qualifying borrowers and thus selects only blue-chip borrowers. Repayment therefore is assured (unless you caught Enron just before it suddenly nose-dived). Borrowers with fewer credentials, of course, have difficult getting money from this market unless it is through well-established funds.

Types of Money Market Instruments

Treasury Bills

Treasury bills (T-bills) are short-term notes issued by the U.S. government. They come in three different lengths to maturity: 90, 180, and 360 days. The two shorter types are auctioned on a weekly basis, while the annual types are auctioned monthly. T-bills can be purchased directly through the auctions or indirectly through the secondary market. Purchasers of T-bills at auction can enter a competitive bid (although this method entails a risk that the bills may not be made available at the bid price) or a noncompetitive bid. T-bills for noncompetitive bids are supplied at the average price of all successful competitive bids.

Federal Agency Notes

Some agencies of the federal government issue both short-term and long-term obligations, including the loan agencies Fannie Mae and Sallie Mae. These obligations are not generally backed by the government, so they offer a slightly higher yield than T-bills, but the risk of default is still very small. Agency securities are actively traded, but are not quite as marketable as T-bills. Corporations are major purchasers of this type of money market instrument.

Short-Term Tax Exempts

These instruments are short-term notes issued by state and municipal governments. Although they carry somewhat more risk than T-bills and tend to be less negotiable, they feature the added benefit that the interest is not subject to federal income tax. For this reason, corporations find that the lower yield is worthwhile on this type of short-term investment.

Certificates of Deposit

Certificates of deposit (CDs) are certificates issued by a federally chartered bank against deposited funds that earn a specified return for a definite period of time. They are one of several types of interest-bearing "time deposits" offered by banks. An individual or company lends the bank a certain amount of money for a fixed period of time, and in exchange the bank agrees to repay the money with specified interest at the end of the time period. The certificate constitutes the bank's agreement to repay the loan. The maturity rates on CDs range from 30 days to six months or longer, and the amount of the face value can vary greatly as well. There is usually a penalty for early withdrawal of funds, but some types of CDs can be sold to another investor if the original purchaser needs access to the money before the maturity date.

Commercial Paper

Commercial paper refers to unsecured short-term promissory notes issued by financial and nonfinancial corporations. Commercial paper has maturities of up to 270 days (the maximum allowed without SEC registration requirement). Dollar volume for commercial paper exceeds the amount of any money market instrument other than T-bills. It is typically issued by large, credit-worthy corporations with unused lines of bank credit and therefore carries low default risk.

Standard and Poor's and Moody's provide ratings of commercial paper. The highest ratings are A1 and P1, respectively. A2 and P2 paper is considered high quality, but usually indicates that the issuing corporation is smaller or more debt burdened than A1 and P1 companies. Issuers earning the lowest ratings find few willing investors.

Unlike some other types of money-market instruments, in which banks act as intermediaries between buyers and sellers, commercial paper is issued directly by well-established companies, as well as by financial institutions. Banks may act as agents in the transaction, but they assume no principal position and are in no way obligated with respect to repayment of the commercial paper. Companies may also sell commercial paper through dealers who charge a fee and arrange for the transfer of the funds from the lender to the borrower.

Bankers' Acceptances

A banker's acceptance is an instruments produced by a nonfinancial corporation but in the name of a bank. It is document indicating that such-and-such bank shall pay the face amount of the instrument at some future time. The bank accepts this instrument, in effect acting as a guarantor. To be sure the bank does so because it considers the writer to be credit-worthy. Bankers' acceptances are generally used to finance foreign trade, although they also arise when companies purchase goods on credit or need to finance inventory. The maturity of acceptances ranges from one to six months.

Repurchase Agreements

Repurchase agreements—also known as repos or buybacks—are Treasury securities that are purchased from a dealer with the agreement that they will be sold back at a future date for a higher price. These agreements are the most liquid of all money market investments, ranging from 24 hours to several months. In fact, they are very similar to bank deposit accounts, and many corporations arrange for their banks to transfer excess cash to such funds automatically.

Role of Money Market

A well-developed money market is essential for a modern economy. Though, historically, money market has developed as a result of industrial and commercial progress, it also has important role to play in the process of industrialization and economic development of a country. Importance of a developed money market and its various functions are discussed below:

1. Financing Trade

Money Market plays crucial role in financing both internal as well as international trade. Commercial finance is made available to the traders through bills of exchange, which are discounted by the bill market. The acceptance houses and discount markets help in financing foreign trade.

2. Financing Industry

Money market contributes to the growth of industries in two ways:

a) Money market helps the industries in securing short-term loans to meet their working capital requirements through the system of finance bills, commercial papers, etc.
b) Industries generally need long-term loans, which are provided in the capital market. However, capital market depends upon the nature of and the conditions in the money market. The short-term interest rates of the money market influence the long-term interest rates of the capital market. Thus, money market indirectly helps the industries through its link with and influence on long-term capital market.

3. Profitable Investment

Money market enables the commercial banks to use their excess reserves in profitable investment. The main objective of the commercial banks is to earn income from its reserves as well as maintain liquidity to meet the uncertain cash demand of the

depositors. In the money market, the excess reserves of the commercial banks are invested in near-money assets *(e.g.* short-term bills of exchange) which are highly liquid and can be easily converted into cash. Thus, the commercial banks earn profits without losing liquidity.

4. Self-Sufficiency of Commercial Bank
Developed money market helps the commercial banks to become self-sufficient. In the situation of emergency, when the commercial banks have scarcity of funds, they need not approach the central bank and borrow at a higher interest rate. On the other hand, they can meet their requirements by recalling their old short-run loans from the money market.

5. Help to Central Bank
Though the central bank can function and influence the banking system in the absence of a money market, the existence of a developed money market smoothens the functioning and increases the efficiency of the central bank.
Money Market Helps the Central Bank in Two Ways

a) The short-run interest rates of the money market serves as an indicator of the monetary and banking conditions in the country and, in this way, guide the central bank to adopt an appropriate banking policy,
b) The sensitive and integrated money market helps the central bank to secure quick and widespread influence on the sub-markets, and thus achieve effective implementation of its policy.

Importance of Money Market
Advantages of Money Market Investments
It shares many features with banking facilities such as current accounts, bank cards, and debit orders.

Accessibility
A money market investment culminates in the return of the principal amount at maturity. This period can be set between one day and thirteen months, which makes them more accessible.

Risks
The money markets are in continuous flux. Because risk is lower than investing in stock market shares, it makes use of a money market facility more predictable.

Return on Investment
Better interest rate returns can be obtained than keeping money in a current account. The higher the amount invested, the higher the rate of return.

Withdrawal Facilities
Most money market investments offer the investor some degree of freedom to make withdrawals. Quite often the investor can make between two and five withdrawals during the period of the investment, depending on the length of maturity period.

Liquidity
Liquidity is the ease with which an investment can be converted into cash. As such, a money market investment is the closest thing to cash on hand. It can therefore be regarded as the most liquid form of investment. Liquidity would depend on the terms of the investment, e.g. the maturity period and restrictions on withdrawals.

Storing Cash Reserves
Cash reserves are needed to deal with an emergency or disaster. Some propagate the need for a reserve to enable survival for up to ten months. Rather than have this cash lying around idly, a money market investment can be very useful to ensure that it at least keeps up with inflation.

Money market investments can be a very useful part of a diversified investment portfolio. Consulting a CFP like a Stone House Capital Partner can help investors identify options and opportunities which fit in with their financial needs.

Capital Market
Markets for buying and selling equity and debt instruments. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government and individuals. Capital markets are vital to the functioning of an economy, since capital is a critical component for generating economic output. Capital markets include primary markets, where new stock and bond issues are sold to investors, and secondary markets, which trade existing securities.

Capital markets typically involve issuing instruments such as stocks and bonds for the medium-term and long-term. In this respect, capital markets are distinct from money markets, which refer to markets for financial instruments with maturities not exceeding one year.

Capital markets have numerous participants including individual investors, institutional investors such as pension funds and mutual funds, municipalities and governments, companies and organizations and banks and financial institutions. Suppliers of capital generally want the maximum possible return at the lowest possible risk, while users of capital want to raise capital at the lowest possible cost.

The size of a nation's capital markets is directly proportional to the size of its economy. The United States, the world's largest economy, has the biggest and deepest capital markets. Capital markets are increasingly interconnected in a globalized economy, which means that ripples in one corner can cause major waves elsewhere. The drawback of this interconnection is best illustrated by the global credit crisis of 2007-09, which was triggered by the collapse in U.S. mortgage-backed securities. The effects of this meltdown were globally transmitted by capital markets since banks and institutions in Europe and Asia held trillions of dollars of these securities.

Advantages and Disadvantages of Capital Market
Advantages
1. Effective Risk Management

- Manage security exposure, market, and operations risk.
- Handle compliance issues, regulatory requirements, security, and other operational risks without burdening existing operations

2. Customer-centric Business Model

- Capture investment profiles to target offers and leads, while shortening sales cycles and increasing investment offers.
- Personalize customer experience across channels

3. Operational Effectiveness

- Manage security exposure, market and operations risk. and Provide Real time and near real time actionable customer and product profitable insight, delivered to the front office.
- Profitable for Investor- The resulting advantages include that innovation is driven forward in a free, capitalist economy, with investors receiving dividends from successful ventures. This money can then be used in other projects that an investor might be passionate and enthusiastic about.

Disadvantages

1. Volatility is another issue - and with long-term investments.
2. May be high charges which reduce earnings from investment returns.
3. No guarantee of returns
4. Risk of losing your money.

Capital Market Vs Money Market
Money market is distinguished from capital market on the basis of the maturity period, credit instruments and the institutions:

1. **Maturity Period:** The money market deals in the lending and borrowing of short-term finance (i.e., for one year or less), while the capital market deals in the lending and borrowing of long-term finance (i.e., for more than one year).
2. **Credit Instruments:** The main credit instruments of the money market are call money, collateral loans, acceptances, bills of exchange. On the other hand, the main instruments used in the capital market are stocks, shares, debentures, bonds, securities of the government.

3. Nature of Credit Instruments
The credit instruments dealt with in the capital market are more heterogeneous than those in money market. Some homogeneity of credit instruments is needed for the operation of financial markets. Too much diversity creates problems for the investors.

4. Institutions
Important institutions operating in the' money market are central banks, commercial banks, acceptance houses, nonbank financial institutions, bill brokers, etc. Important institutions of the capital market are stock exchanges, commercial banks and nonbank institutions, such as insurance companies, mortgage banks, building societies, etc.

5. Purpose of Loan

The money market meets the short-term credit needs of business; it provides working capital to the industrialists. The capital market, on the other hand, caters the long-term credit needs of the industrialists and provides fixed capital to buy land, machinery, etc.

6. Risk

The degree of risk is small in the money market. The risk is much greater in capital market. The maturity of one year or less gives little time for a default to occur, so the risk is minimised. Risk varies both in degree and nature throughout the capital market.

7. Basic Role

The basic role of money market is that of liquidity adjustment. The basic role of capital market is that of putting capital to work, preferably to long-term, secure and productive employment.

8. Relation with Central Bank

The money market is closely and directly linked with central bank of the country. The capital market feels central bank's influence, but mainly indirectly and through the money market.

9. Market Regulation

In the money market, commercial banks are closely regulated. In the capital market, the institutions are not much regulated.

Conclusion

The India money market is a monetary system that involves the lending and borrowing of short-term funds. India money market has seen exponential growth just after the globalization initiative in 1992. It has been observed that financial institutions do employ money market instruments for financing short-term monetary requirements of various sectors such as agriculture, finance and manufacturing. The performance of the India money market has been outstanding in the past 20 years.

Central bank of the country - the Reserve Bank of India (RBI) has always been playing the major role in regulating and controlling the India money market. The intervention of RBI is varied - curbing crisis situations by reducing the cash reserve ratio (CRR) or infusing more money in the economy.

References

1. http://www.investopedia.com/terms
2. https://www.bankbazaar.com/investment.html
3. http://economictimes.indiatimes.com/
4. https://www.inc.com/
5. http://kalyan-city.blogspot.in/
6. community.cakart.in/35054/
7. https://www.quora.com/
8. science.blurtit.com/...
9. www.yourarticlelibrary.com/.
10. https://en.wikipedia.org/wiki/
11. economictimes.indiatimes.com
12. https://en.wikipedia.org/wiki
13. lexicon.ft.com
14. www.nasdaq.com

Book References

1. The money market Book by Marcia Stigum.
2. How to Make Money in Stocks Author: William O'Neil.
3. The Money Markets Handbook: A Practitioner's Guide [Moorad Choudhry, Bob Beehler].
4. Financial Management with New Approach By Suvendu Narayan Roy.