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# 11. Global Financial Markets and India's Opportunities

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## 11.1 Introduction:

The Reserve Bank of India (RBI) and the Indian government have made a concerted effort to gradually develop and integrate various financial market segments in India. There are four key segments of the financial markets that are examined in this paper: money (government securities), foreign exchange (forex), and equity. This question is being raised after the 2013 episode of the USD/INR depreciation, in which monetary policy transmission was found to be ineffective. According to the regression analysis, macroeconomic variables are influenced by financial measures of government securities and the forex market. It was found that money, government securities and the foreign exchange market are highly liquid, according to the liquidity analysis Money and government securities markets are found to be less volatile, but still vulnerable to sudden shocks. Forex and equities markets, on the other hand, have become extremely volatile due to the strong influence of exogenous factors. The country's forex market has become more efficient as a result of gradual financial reforms. There has been an increase in the correlation between different market segments over time, according to cross-correlation studies. In today's fragile macroeconomic scenario, which is characterised by weak domestic performance and uncertainty in foreign investor sentiment, such analyses of intermarket and macroeconomic behavioural relationships have become important. Over the last few decades, India's economy has grown significantly. With India's help, the world has made significant progress in the fight against extreme poverty. A generation ago, India was one of the world's poorest countries, but today it is one of the world's fastest-growing economies. Our goal is to promote broad-based growth and to reduce extreme poverty and to increase shared prosperity, so this is very encouraging to us at the World Bank.

The Indian government has implemented a number of reforms aimed at liberalising, regulating, and improving this industry. India's government and Reserve Bank of India (RBI) have taken a number of steps to make it easier for micro and small-scale businesses to obtain financing (MSMEs). These measures include establishing a Micro Units Development and Refinance Agency, establishing a Credit Guarantee Fund Scheme for MSMEs, and issuing guidelines to banks on collateral requirements (MUDRA). As a result of the efforts of both the government and private sector, India is unquestionably one of the most dynamic capital markets in the world today.

financial markets allow people to buy and sell (trade) a wide range of valuable fungible assets at low transaction costs, reflecting both the efficient-market hypothesis and the low transaction costs of financial securities (such as stocks and bonds). Trading costs and fees, as well as the influence of market forces on price determination, are all characteristics of healthy financial markets. Markets in economics are typically defined as the total number of potential buyers and sellers of a given product or service, as well as the transactions that occur between them. Exchanges and organisations that facilitate the trading of financial securities, such as the stock exchange or exchange in Finance, are often referred to simply as "markets."

The process of raising money (in the Capital Markets)

- The transfer of a threat (in the Derivatives Markets)
- The exchange of money (in the Money Markets)
- In addition, they're employed to connect those in need of capital with those who already have it.

## 11.2 Historical Evolution of Financial Markets:

A country's financial system and infrastructure have developed over time according to the country's unique historical development. All of the players in the system interact continuously, and public policy interventions shape this evolution over time. It is also a reflection of regulators and governments at that time's thinking about how innovation and stability should be balanced and what role the state should play.

Financial markets and regulations in India have also evolved in a similar way. For example, in India, the Reserve Bank of India (RBI) serves as the banking sector regulator, while the Ministry of Finance serves as the regulator for all other financial sectors, such as insurance, securities, and the like. There are now many financial service providers and their regulatory agencies operating. Since their inception, regulators' role has evolved from that of a tool for strategic growth to one of an arbiter in today's more advanced and complex financial sector.

## Example of the Financial Markets:

For example, XYZ Ltd. is looking to raise $100,000 by issuing stock on the financial market, as an example. For the first time, the company is offering shares to the general public, so it will have to do so in the primary share market, which is the case if new stock issues are first offered. The secondary market will be used for any subsequent transactions involving the stock securities.

## Importance of Financial Markets:

Investors and creditors of all sizes can participate in the financial markets with confidence, knowing that they will be treated fairly. Individuals, businesses, and government agencies can all benefit from their services. Because of the numerous employment opportunities provided by the financial markets, they assist in reducing the overall unemployment rate.

This can often provide a better return in the long run than opening a savings account at your local financial institution. Buying stocks, on the other hand, can be risky. This link will open in a new tab or window on your computer. If you've had good returns on an investment in the past, that doesn't necessarily mean they'll continue to be good in the future.

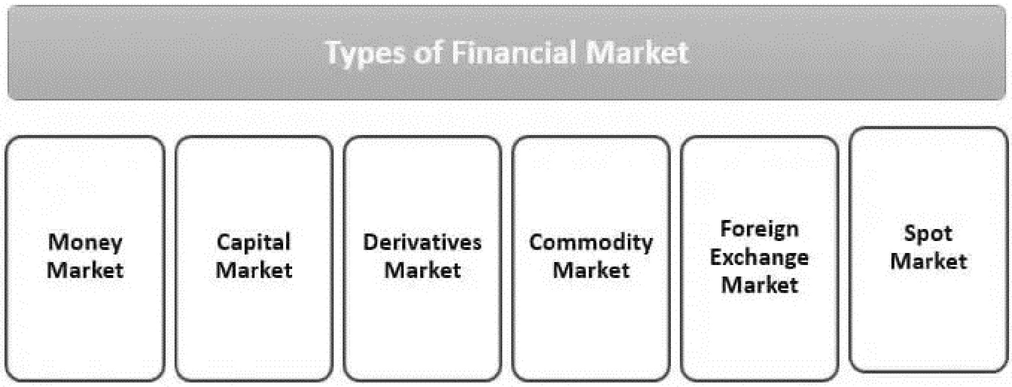
Insurance can also be purchased through the financial markets. It is necessary for insurance companies to rely on financial markets if an accident occurs, such as losing or damaging your cell phone.

There are financial markets that allow banks to borrow money, which enables them to make loans – whether that's a student loan or a house mortgage – to those who want to borrow.

To meet the short-term and long-term financial needs of individuals and businesses alike, an efficient financial market facilitates the mobilisation and allocation of surplus funds, thereby promoting wealth creation.

### 11.3 Types of Financial Markets:

Every country has at least one financial market, though their sizes vary widely. In contrast, the New York Stock Exchange (NYSE), which trades trillions of dollars a day, is one of many smaller exchanges. Some examples of financial markets are provided below.




### 11.3.1 Money Market:

Financial instruments that have a maturity or redemption date of one year or less at the time of issuance are included in this sector of the market. Wholesalers predominate here. Financial institutions that deal in short-term funds, such as commercial paper, treasury bills, and bills of exchange, are referred to as the "Money Market."

- Assisting the needy
- management of financial resources.
- To put it another way:
- Financial speculation or support for a particular position.
- Communication;
- Price information is available.

Governments have used methods of direct regulation and control of individual and company savings and investment behaviour in order to influence the supply side. However, the ability to implement policy goals through such measures has diminished as a result of rapid technological advancements, internationalisation, and financial market liberalisation.

The demand side is the primary focus of current policy, which takes the form of market-oriented measures. Intermediary between monetary policy implementation and national economies, domestic money markets serve a variety of public policy goals, including financing and managing the accumulated deficits of the public sector.

### 11.3.2 Stock Market:

In the stock market, you can buy and sell shares of publicly traded companies. Stocks have a value, and when they do well in the market, investors profit from them. Investing in stocks is simple. Selecting the right stocks to invest one's money in is the real challenge.

To keep tabs on the stock market, investors can look to indices like the Dow Jones Industrial Average (DJIA) or the S&P 500. As soon as an investor purchases a stock at a discount and then sells it at a higher price, they profit.

### 11.3.3 Bond Market:

In order to secure funds for a project or investment, companies and governments can turn to the bond market for assistance. In the bond market, investors purchase bonds from a company, which then pays back the original principal and interest to the investors over a predetermined period of time.

### 11.3.4 Capital Market:

The long-term financial instruments issued by corporations and governments are traded in the Capital Market. Perpetual securities and financial instruments with an original maturity of more than a year are considered long-term investments in the context of this definition (those with no maturity). Securities that represent ownership interest, or equity, issued by corporations as well as state and local governments are known as Capital Market securities.

In the world of finance, there are two main markets: the cash market and the derivative market.

- **Market For Cash:** Financial instruments can be bought and sold in the Spot Market, which is also known as the cash market.
- **Derivative Market:** Contracts in the derivatives market specify that the contract holder has an obligation or a choice to buy or sell another thing at or by a future date. Some financial instruments. The contract's "something" is referred to as the "underlying" (asset). Stock, bond, interest rate, currency or commodity are all examples of the underlying asset. Contracts that are linked to the value of an asset are known as derivative instruments and traded in the derivatives market because their value is derived from the asset's value.

### 11.3.5 Foreign Exchange Market:

An exchange where people buy and sell currencies is known as a forex market. It consists of financial institutions, commercial enterprises, central banks, asset management firms, hedge funds, and individual investors in the Forex market. It's the biggest market in the world, according to most estimates.

The currency markets are regarded as the most efficient financial markets because of their size and liquidity. To facilitate international trade and investment, foreign exchange markets allow for currency conversion.

Even though the US company's income is in US dollars, it is permitted to import goods from the EU member states in Euros. Trade and speculation based on interest rate differences between two currencies can also be supported by the currency's direct speculation and evaluation.

As a result of the following characteristics, the foreign exchange market is quite distinctive.

- As the world's largest asset class, bitcoin enjoys exceptionally high levels of liquidity thanks to its enormous trading volume.
- Dispersion across the globe

- 3Its non-stop operation is a plus:24 hours a day except weekends i.e. trading
- Sunday at 22:00GMT until Friday at 22:00GMT (Sydney time) (New York)
- Exchange rates are influenced by a wide range of factors
- Relative Profit Margin: Low Compared to Other Fixed Income Markets
- Despite currency intervention, the use of leverage to increase profit and loss margins and account sizes has been referred to as a market closer to perfect competition.

### 11.3.6 Commodities Market:

A market that is closer to perfect competition, despite the use of leverage to increase profit and loss margins and account sizes, has been described as such despite currency intervention.

### Financial Market Advantages:

As you can see, financial markets have many advantages.

- Firms can use it as a long-term and short-term source of capital.
- There are cheaper ways to raise capital than to borrow money from commercial banks and pay higher interest rates. There aren't a lot of loans available from commercial banks, either.
- When a company's authorised share capital runs out, it has the option of raising additional funds from the market.
- Banks and other financial institutions act as go-betweens in the financial markets, offering financial and strategic advice to businesses and investors alike. They provide access to resources, advice, and knowledge that might not otherwise be available
- Trading and dealing with multiple shares, securities, bonds, and derivatives are all possible with this system because of its multi-securities platform.
- Investment and business confidence are bolstered as a result of strict financial market regulations.
- Provide a platform for the lending and borrowing of international money in various currencies.

## Functions of the Markets:

The importance of financial markets in a country's economic success and strength cannot be overstated. Financial markets perform these four essential functions:

**A. Utilizes Savings in A More Beneficial Way:**

Money in a savings account, as shown in the preceding illustration, should not be left untouched. Banks, for example, provide access to credit for people and businesses in need of mortgages, student loans, and other types of loans.

**B. Sets the Price of Financial Instruments:**

It is the goal of investors to make money from their investments. Prices of securities, on the other hand, are determined by the financial markets, rather than the law of supply and demand.

**C. Financial Assets Can Be Traded More Easily:**

The decision to trade securities can be made at any time by either the buyer or the seller. They have access to financial markets and can use them to either sell or invest their securities.

**D. It Reduces Transaction Costs:**

There is no need to spend money in the financial markets to obtain information about securities.

## Significance of Financial Markets:

The financial markets play a crucial role in the global and national economies. The financial markets serve as a medium for the exchange of financial assets between buyers and sellers. The market force, which is demand and supply, determines the prices of the same. The investors' savings are made available for productive investment. When it comes to facilitating trades, it is one of the most sought-after platforms for traders.

On the financial markets, investors can sell their financial securities. As a result, the tradable assets can also benefit from the liquidity provided by financial markets.

## The Role of Financial Markets in Economic Growth:

Markets in the financial sector are critical to promoting economic growth. In economics, it's commonly argued that a well-functioning financial sector encourages investment and trade and business ties, making it easier to make better use of resources and spread new technologies.

When savings are put to use, financial markets encourage investment in both the physical and human resources of a country. The financial sector also collects and analyses data on investment opportunities, which allows for savings to be put to better use. By monitoring management and exerting corporate controls, the financial system may be able to improve the efficiency of the corporate sector.

## 11.4 Growing Capital Markets:

Working capital and fixed capital are the two types of capital required by every business to fund its operations and production. A company's working capital is used to purchase raw materials, while its fixed capital is used to invest in long-term assets such as plant and machinery.

Exporters and importers can receive and raise money to settle transactions on the financial markets. There are numerous foreign currencies that can be borrowed and lent to customers by banks, as well. In addition to helping the government meet its foreign exchange needs, this is a benefit to the capital market.

## Trade Development:

Discounts on financial instruments like treasury bills and commercial papers are possible because of the financial markets' role in supporting both domestic and international trade. Commercial banks also provide pre-shipment and post-shipment financing for importers, and a Letter of Credit is issued in their favour.

Because the buyer and seller don't have to meet in person, the financial market makes it easier for documents to be exchanged between them. The growth of the economy is aided by such rapid transactions in trading.

### Relationship Between Savings & Investment:

With the help of the financial markets, savings and investments can flow freely throughout the country. Depositors are encouraged to invest in FDs and RDs by banks, which offer them attractive interest rates.

Banks use these funds to extend credit to a variety of companies involved in manufacturing and distribution. Banks also facilitate the allocation of resources across a wide range of economic sectors.

### Government Securities:

To help the government raise money, the financial markets allow them to borrow at a lower interest rate. Short-term and long-term funds can be raised from the government securities market to meet capital needs by issuing bonds and bills issued by the federal and local governments, respectively

Tax-exempt bonds, such as treasury bills, offer a low-interest alternative for the federal government to borrow money from the money market. As a result, money, capital, and international markets play a critical role in fostering domestic trade, industry, and commerce.

### Balanced Growth of Economy:

Economic growth will be more balanced when all sectors are growing at the same time. By facilitating savings into investment channels, the financial markets allow for a wide range of investments in various sectors of the economy. It is crucial for the financial markets to distribute these funds to the various sectors of the economy in such a way that the growth of the manufacturing, agricultural, and service sectors, as well as the entire country's economy, is not disrupted.

## Foreign Exchange Markets:

The foreign exchange market enables exporters and importers to receive and raise funds for the settlement of the deals. The ability to borrow money from banks and disburse it to a variety of customers in various foreign currencies, such as the British pound, the US dollar, or the Euro, is another benefit of this method.

This market also allows banks to invest short-term idle funds to earn profits and helps the government meet its foreign exchange needs through the market.

## Growth of Financial Infrastructure:

The health of the financial system has a significant impact on economic growth. Economic growth is dependent on the strength of the economy's financial assets, its financial market, and its financial intermediaries. Financial services aid in the development of infrastructure and industry. It is through these intermediaries that investors and savers can successfully transfer resources between each other, as the financial market acts as a conduit.

## 11.5 Growing Employment Opportunities:

There are more and more job openings in the economy as the financial system expands As the financial markets help businesses raise capital, production rises, necessitating an increase in workforce. Both the organised and the unorganised sectors benefit from this.

Job openings in a variety of fields, including sales, marketing, and advertising, are increasing in tandem with the growth of the industrial and business sectors themselves. Increased employment is a benefit of start-ups.

## Ensures Political Stability:

In countries with a well-developed financial system and market, the political climate will always be stable. A country's financial system and overall economic development will be harmed if it has an unstable political climate, as is the case in countries like India and Pakistan.

## Control Through Fiscal Discipline:

Because of the financial markets, governments can cultivate a business-friendly environment free of inflation and depression. Financial markets should be able to provide adequate protection for industries so that they can meet their credit needs even during difficult times.

The government has the ability to raise the necessary funds to meet its financial obligations without impeding economic expansion. By enacting appropriate legislation, it controls the market and prevents speculative activity while also reducing the use of illicit financial instruments like black money. Whatever the product or service, they are a constant source of revenue for their countries. It's unclear where all of this money — issued by governments, businesses, financial institutions, and individuals — will end up in the future, and that has an impact on the decisions people make today. It is the current actions that influence future expectations, which in turn influences current and future trends. How certain groups feel about the current economy is frequently measured using indicators of sentiment. There can be a bias or expectation based on these indicators and other forms of fundamental and technical analysis.

## Demand and Supply:

Prices are driven by supply and demand for goods, services, currencies, and other investments. When the supply or demand for a product or service shifts, prices and interest rates follow suit. As the supply of something diminishes, the price rises. When supply exceeds demand, prices will decrease. Prices can rise and fall as demand increases or decreases if supply is relatively stable.

## The Scope of Career in Finance Sector in The Indian Financial Market:

The Indian financial market is currently expanding at a rate far exceeding that of any other industry in the country. Since the 19th century, the stock exchanges in Mumbai, Ahmedabad, and Kolkata have grown in size and organisation. Madras, Kanpur, Delhi, Bangalore, and Pune joined the list of eight securities exchanges in India in the 1960s in addition to those three. Currently, India is home to 23 regional stock exchanges.

The industry's rapid expansion necessitates a large workforce across the country. It prefers graduates with a strong background in business, economics, finance, mathematics, and management. Firms that provide financial advice often hire recent graduates as entry-level employees. Stock brokerage firms and mutual fund houses both hire recent graduates with relevant experience. Sales and marketing, fund accounting, investment and research, operations, and administration are the primary functions of a Mutual Fund company. One can start out as a financial advisor or financial planner, then move on to become a research analyst and finally a fund manager after a few years of experience.

### India's financial sector offers a wide range of career options, including:

In the finance industry, money managers play an important role. In general, they invest in fixed-income securities such as corporate bonds and money market funds. They specialise in small stocks and large-cap mutual funds, which are their main focus. Portfolio Manager, Mutual Fund Analyst, and Hedge Fund Trader are some of the most common positions.

(ii) The corporate sector, stock broking firms, finance firms, and shipping firms are other possible career paths in the insurance industry. As a result of the insurance industry's privatisation, more people can now find work.

(iii) The demand for financial planners is growing as more and more people become wealthy and join the millionaire's club. Wealthy individuals can benefit from the services of these financial planners by planning ahead for unforeseen expenses that may arise. A financial planner, like a family doctor, ensures the long-term financial well-being of a family by keeping an eye on both the present and the future. The Chartered Financial Planner (CFP) course, currently offered in India by the Association of Financial Planners (AFP) in technical collaboration with the Financial Planning Association of Australia Ltd., is required for those who wish to pursue the career of financial planner.

## 11.6 Conclusion:

Financial markets remain unstable despite the existence of independent regulatory bodies and a wide range of banks and financial institutions, which necessitates more speculation and strong policies from these institutions. Because of the openness of financial markets, we are better able to make informed decisions about where and how to invest our money. Risk and investment can be accommodated by both small and large investors, long-term and short-term investors, large corporations and small corporations. The government's ability to move money around the country is facilitated by a strong market, which also creates opportunities for various industries to grow. Since the financial market involves trading in financial assets like stocks, bonds, derivatives, commodities, currencies, etc. it can be concluded that this market is called the financial market. Financial instruments and securities are exchanged through the use of an arrangement or institution like this. Location isn't everything; it can be absent or present. Alternatively, the assets can be traded over the phone or the internet between the parties. As a result of factors like low transaction costs, investor protection, high liquidity, pricing information transparency, ease of legal procedures for resolving disputes and so on, the role of the financial market has dramatically changed in just a few years.

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