COURSE NAME- LAW

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TOPIC- CAPITAL MARKET

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PALWAL

Capital Market

1. Facilities and institutional arrangements through which long term securities are raised and invested- both debt and equity.

2. Capital market is referred to as a place where saving and investments are done between capital suppliers and those who are in need of capital. It is, therefore, a place where various entities trade different financial instruments.S

Nature of Capital Markets

Important component of Financial markets

1. Two segments(primary and secondary)

2. 2 forms(organized and unorganized)

3. long term securities

4. Satisfies long term requirements of funds

5. Performs trade-off functions

6. Creates dispersion in business ownership

7. Helps in capital formation i. Creates liquidity

Features Of Capital Market Instruments

a. Provide long term funds

b. Lesser outlay required as unit value of instruments is low

c. Duration more than 1 year

d. Liquidity

e. Lower safety

f. Higher expected returns as compared to short term securities

Functions of Capital Market:

It acts in linking investors and savers

Facilitates the movement of capital to be used more profitability and productively to boost the national income

Boosts economic growth

Mobilization of savings to finance long term investment
Facilitates trading of securities

Minimization of transaction and information cost

Encourages a massive range of ownership of productive assets
Quick valuations of financial instruments

Through derivative trading, it offers insurance against market or price threats
Facilitates transaction settlement

Improvement in the effectiveness of capital allocation
Continuous availability of funds

Types of Capital Market

Classification of capital market

The capital market can be divided into two parts:

1. Primary Market

2. Secondary Market

Primary Market:

The primary market is a new issue market; it solely deals with the issues of new securities. A place where trading of securities is done for the first time. The main objective is capital formation for government, institutions, companies, etc. also known as Initial Public Offer (IPO).

Primary Market

- New issues markets
- Transfers investible funds from savers to entrepreneurs.
- Funds used for setting up new projects, expansion, diversification, modernization of existing projects, mergers and take overs etc.

Methods of Floatation of New Issues in Primary Market

1. Offer through Prospectus: It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.

2. Offer for Sale: Under this method, securities are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary/broker at an agreed price and the broker resells them to investors at a higher price.

3. Private Placements: It refers to the process in which securities are allotted to institutional investor and some selected individuals.

4. Rights Issue: It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.

5. e-IPOs: It is a method of issuing securities through an on-line system of stock exchange. A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an e-initial public offer. SEBI’s registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

Secondary Market:

The secondary market is a place where trading takes place for existing securities. It is known as stock exchange or stock market. Here the securities are bought and sold by the investors.

Secondary Market

1.Refers to a market where existing securities are bought and sold.

2.The company is not involved in the transaction at all. It is between two investors.

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Features of Secondary market :

1) Creates liquidity
2) Fixed location
3) Comes after primary market
4) Encourages new investment
5) Regular information about the value of security
6) Offers liquidity to the investors for their assets
7) Continuous and active trading
8) Provide a Market Place

Difference between Primary Market and Secondary Market

1-Basis   Primary Market Secondary Market

2.Securities-   Only new securities are traded   but in secondary market Existing securities are traded Price of Securities

3. Prices of securities- Prices of securities are determined by the management of the company. but in secondary market

Prices are determined by the forces by the demand and supply of the securities.

4.Purchase and Sale - Securities are sold to investors directly by the company or through intermediary. but in secondary market Investors exchange ownership of securities.

5.Place of Market- There is no fixed geographical location but a secondary market Located at specified places.

6.Medium   Only buying of securities takes place. but in secondary market Both buying and selling of securities can take place.

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