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CAPITAL MARKET

- *The market where investment instruments like bonds and equities are traded is known as the capital market.*
- *The primal role of this market is to make investment from investors who have surplus funds to the ones who are running a deficit.*

- The capital market offers both long term and overnight funds.
- The different types of financial instruments that are traded in the capital markets are:
 - > equity instruments
 - > insurance instruments,
 - > foreign exchange instruments,
 - > hybrid instruments

NATURE OF CAPITAL MARKET

The nature of capital market is brought to us by the following facts:

- It Has Two Segments
- It Deals In Long-Term Securities
- It Performs Trade-off Function
- It Creates Dispersion In Business Ownership
- It Helps In Capital Formation
- It Helps In Creating Liquidity



TYPES OF CAPITAL MARKET
There are two types of capital market:

- Primary market,
- Secondary market

PRIMARY MARKET

- *It is that market in which shares, debentures and other securities are sold for the first time for collecting long-term capital.*
- *This market is concerned with new issues. Therefore, the primary market is also called **NEW ISSUE MARKET.***



- *In this market, the flow of funds is from savers to borrowers (industries), hence, it helps directly in the capital formation of the country.*
- *The money collected from this market is generally used by the companies to modernize the plant, machinery and buildings, for extending business, and for setting up new business unit.*

FEATURES OF PRIMARY MARKET

- *It Is Related With New Issues*
- *It Has No Particular Place*
- *It Has Various Methods Of Float Capital: Following are the methods of raising capital in the primary market:*
 - i) *Public Issue*
 - ii) *Offer For Sale*
 - iii) *Private Placement*
 - iv) *Right Issue*
 - v) *Electronic-Initial Public Offer*
- *It comes before Secondary Market*

SECONDARY MARKET

- *The secondary market is that market in which the buying and selling of the previously issued securities is done.*
- *The transactions of the secondary market are generally done through the medium of stock exchange.*
- *The chief purpose of the secondary market is to create liquidity in securities.*



- *If an individual has bought some security and he now wants to sell it, he can do so through the medium of stock exchange to sell or purchase through the medium of stock exchange requires the services of the broker presently.*



FEATURES OF SECONDARY MARKET

- 'It Creates Liquidity*
- 'It Comes After Primary Market*
- 'It Has A Particular Place*
- 'It Encourage New Investments*



CAPITAL MARKET INVESTMENT

- *Capital market investment takes place through the bond market and the stock market.*
- *The capital market is basically the financial pool in which different companies as well as the government can raise long term funds.*

CAPITAL MARKET RISK

- *Investment in long term financial instruments is accompanied by high capital market risks. Since there are two types of capital markets- the stock market and the bond market.*
- *So risks are present in both the market.*

RISK IN THE STOCK MARKET

- *Stock prices keep fluctuating over a wide range unlike the bank deposits or government bonds.*
- *Research has shown that there are certain psychological factors that shape the stock market prices.*

- *Sometimes the market behaves illogically to any economic news.*
- *The stock market prices can be diverted in any direction in response to press releases, rumors and masspanic.*
- *The stock market prices are also subject to speculation. In the short run the stock market prices may be very volatile due to the occurrences of the fast market changing events.*

RISK IN THE BOND MARKET

- *Capital market risk in the bond market arises due to interest rate changes. Hence the bond prices are sensitive to the monetary policy of the country as well as economic changes.*