IRJC
International Journal of Marketing, Financial Services & Management Research
Vol.1 Issue 9, September 2012, ISSN 2277 3622

ROLE OF MONEY MARKET IN CONTEXT TO GROWTH OF INDIAN ECONOMY

NEHA PURI*

*Assistant Professor,
Amity College of Commerce & Finance,
Amity Universtiy, Noida.

ABSTRACT

A well regulated financial sector is essential in globalize economy. Financial innovation has contributed in the economic development. A financial institution is an institution that provides financial services for its clients or members. Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are highly regulated by government. The definition of money for money market purposes is not confined to bank notes but includes a range of assets that can be turned into cash at short notice, such as short-term government securities, bills of exchange, and bankers' acceptances This paper analyses the real effects of financial markets subsequent to financial liberalization in an economy with risk averse savers and learning by lending. Transition from full financial repression to full financial liberalization might initially slow down the growth process or even induce a recession, whenever the initial level of valuable investments known by the financial intuitions is sufficiently scanty. However, lending activity leads to accumulation of information (learning by lending) regarding valuable investments. The purpose of this paper is to advocate and encourage financial markets in the overall development of the economy.

KEYWORDS: Financial sector, financial innovation, financial markets and money market.

1. INTRODUCTION

Financial openness is often regarded as providing important potential benefits. Access to money markets expands investors' opportunities for a potential for achieving higher risk-adjusted rates of return. It also allows countries to borrow to smooth consumption in the face of adverse shocks, the potential growth and welfare gains resulting from such international risk sharing can be large (Obstfeld, 1994). It has also been argued that by increasing the rewards of good policies and the penalties for bad policies, free flow of capital across borders may induce countries to follow more disciplined macroeconomic policies that translate into greater macroeconomic stability. An increasingly common argument in favour of financial openness is that it may increase the depth and breadth of domestic financial markets and lead to an increase in financial intermediation process by lowering costs and "excessive" profits associated with monopolistic or cartelized markets, thereby lowering the cost of investment and improving resource allocation.

Organized financial markets have existed in India for more than a century. Today, markets of varying maturity exist in equity, debt, commodities and foreign exchange. There are 25 stock markets all over the country, the most important of which, are the Bombay Stock Exchange and the National Stock Exchange. The rupee has been convertible on the current account since 1992.

India Financial Market helps in promoting the savings of the economy - helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient and integrated to face all shocks. In the India financial market there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other determinant factor of the prices of the financial products is the market forces of demand and supply.

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.

2.ROLE OF MONEY MARKET IN ECONOMY

Money markets play a key role in banks' liquidity management and the transmission of monetary policy. In normal times, money markets are among the most liquid in the financial sector. By providing the appropriate instruments and partners for liquidity trading, the money market allows the refinancing of short and medium-term positions and facilitates the mitigation of your business' liquidity risk. The banking system and the money market represent the exclusive setting monetary policy operates in. A developed, active and efficient interbank market enhances the efficiency of central bank's monetary policy, transmitting its impulses into the economy best. Thus, the development of the money market smoothes the progress of financial intermediation and boosts lending to economy, hence improving the country's economic and social welfare. Therefore, the development of the money market is in all stakeholders' interests: the banking system elf, the Central Bank and the economy on the whole.

2.1PRODUCING INFORMATION AND ALLOCATING CAPITAL

The information production role of financial systems is explored by Ramakrishnan and Thakor (1984), Bhattacharya and P fleiderer (1985), Boyd and Prescott (1986), and Allen (1990). They develop models where financial intermediaries arise to produce information and sell this information to savers. Financial intermediaries can improve the ex ante assessment of investment opportunities with positive ramifications on resource allocation by economizing on information acquisition costs. As Schumpeter (1912) argued, financial systems can enhance growth by spurring technological innovation by identifying and funding entrepreneurs with the best chance of successfully implementing innovative procedures. For sustained growth at the frontier of technology, acquiring information and strengthening incentives for obtaining information to improve resource allocation become key issues.

2.2 RISK SHARING

One of the most important functions of a financial system is to achieve an optimal allocation of risk. There are many studies directly analyzing the interaction of the risk sharing role of financial systems and economic growth. These theoretical analyses clarify the conditions under which financial development that facilitates risk sharing promotes economic growth and welfare. Quite often in these studies, however, authors focus on either markets or intermediaries, or a comparison of the two extreme cases where every financing is conducted by either markets or intermediaries. The intermediate case in which markets and institutions co-exist is rarely analyzed in the context of growth models because the addition of markets can destroy the risk-sharing opportunities provided by intermediaries. In addition, studies focus on the role of financial systems that face diversifiable risks. The implications for financial development and financial structure on economic growth are potentially quite different when markets cannot diversify away all of the risks inherent in the economic environment. One importance of risk sharing on economic growth comes from the fact that wile avers generally do not like risk, high-return projects tend to be riskier than low return projects. Thus, financial markets that ease risk diversification tend to induce a portfolio shift onwards projects with higher expected returns as pointed out by Greenwood and Jovanovic(1990), Saint-Paul (1992), Devereux and Smith (1994) and Obstfeld (1994). King and Levine(1993a) show that cross sectional risk diversification can stimulate risky innovative activityfor sufficiently risk-averse agents. The ability to hold a diversified portfolio of innovative projects reduces risk and promotes investment in growth-enhancing innovative activities.

2.3 LIQUIDITY

Money market funds provide valuable liquidity by investing in commercial paper, municipal securities and repurchase agreements: Money market funds are significant participants in the commercial paper, municipal securities and repurchase agreement (or repo) markets. Money market funds hold almost 40% of all outstanding commercial paper, which is now the primary source for short-term funding for corporations, who issue commercial paper as a lower-cost alternative to short-term bank loans. The repo market is an important means by which the Federal Reserve conducts monetary policy and provides daily liquidity to global financial institutions.

Quantum of liquidity in the banking system is of paramount importance, as it is an important determinant of the inflation rate as well as the creation of credit by the banks in the economy. Market forces generally indicate the need for borrowing or liquidity and the money market adjusts itself to such calls. RBI facilitates such adjustments with monetary policy tools available with it. Heavy call for funds overnight indicates that the banks are in need of short term funds and in case of liquidity crunch, the interest rates would go up.

2.4 DIVERSIFICATION

For both individual and institutional investors, money market mutual funds provide a commercially attractive alternative to bank deposits. Money market funds offer greater investment diversification, are less susceptible to collapse than banks and offer investors greater disclosure on the nature of their investments and the underlying assets than traditional bank deposits. For the financial system generally, money market mutual funds reduce pressure on the FDIC, reduce systemic risk and provide essential liquidity to capital markets because of the funds' investments in commercial paper, municipal securities and repurchase agreements.

2.5 ENCOURAGEMENTS TO SAVING AND INVESTMENT

Money market has encouraged investors to save which results in encouragement to investment in the economy.the savings and investment equilibrium of demand and supply of loanable funds helps in the allocation of resources.

2.6 CONTROLS THE PRICE LINE IN ECONOMY

Inflation is one of the severe economic problems that all the developing economies have to face every now and then. Cyclical fluctuations do influence the price level differently depending upon the demand and supply situation at the given point of time. Money market rates play a main role in controlling the price line. Higher rates in the money markets decrease the liquidity in the economy and have the effect of reducing the economic activity in the system. Reduced rates on the other hand increase the liquidity in the market and bring down the cost of capital considerably, thereby rising the investment. This function also assists the RBI to control the general money supply in the economy.

2.7 HELPS IN CORRECTING THE IMBALANCES IN ECONOMY.

Financial policy on the other hand, has longer term perspective and aims at correcting the imbalances in the economy. Credit policy and the financial policy both balance each other to achieve the long term goals strong-minded by the government. It not only maintains total control over the credit creation by the banks, but also keeps a close watch over it. The instruments of financial policy counting the repo rate cash reserve ratio and bank rate are used by the Central Bank of the country to give the necessary direction to the monetary policy.

2.8 REGULATES THE FLOW OF CREDIT AND CREDIT RATES

Money markets are one of the most significant mechanisms of any developing financial system. In its place of just ensure that the money market in India regulate the flow of credit and credit rates, this instrument has emerge as one of the significant policy tools with the government and the RBI to control the financial policy, money supply, credit creation and control, inflation rate and overall economic policy of the State. Therefore the first and the leading function of the money market mechanism are regulatory in nature. While determining the total volume of credit plan for the six monthly periods, the credit policy also aims at directing the flow of credit as per the priorities fixed by the government according to the requirements of the economy. Credit policy as an instrument is important to ensure the availability of the credit in sufficient volumes; it also caters to the credit needs of various sectors of the economy. The RBI assist the government to realize its policies related to the credit plans throughout its statutory control over the banking system of the country.

2.9 TRANSMISSION OF MONETARY POLICY

The money market forms the first and foremost link in the transmission of monetary policy impulses to the real economy. Policy interventions by the central bank along with its market operations influence the decisions of households and firms through the monetary policy transmission mechanism. The key to this mechanism is the total claim of the economy on the central bank, commonly known as the monetary base or high-powered money in the economy. Among the constituents of the monetary base, the most important constituent is bank reserves, i.e., the claims that banks hold in the form of deposits with the central bank. The banks' need for these reserves depends on the overall level of economic activity. This is governed by several factors:

(i) Banks hold such reserves in proportion to the volume of deposits in many countries, known as reserve requirements, which influence their ability to extend credit and create deposits, thereby limiting the volume of transactions to be handled by the bank;

(ii) bank's ability to make loans (asset of the bank) depends on its ability to mobilize deposits (liability of the bank) as total assets and liabilities of the bank need to match and expand/contract together; and

(iii) Banks' need to hold balances at the central bank for settlement of claims within the banking system as these transactions are settled through the accounts of banks maintained with the central bank. Therefore, the daily functioning of a modern economy and its financial system creates a demand for central bank reserves which increases along with an expansion in overall economic activity (Friedman, 2000b).

3. GROWTH OF MONEY MARKET IN INDIA

While the need for long term financing is met by the capital or financial markets, money market is a mechanism which deals with lending and borrowing of short term funds. Post reforms period in India has witnessed tremendous growth of the Indian money markets. Banks and other financial institutions have been able to meet the high expectations of short term funding of important sectors like the industry, services and agriculture. Functioning under the regulation and control of the Reserve Bank of India (RBI), the Indian money markets have also exhibited the required maturity and resilience over the past about two decades. Decision of the government to allow the private sector banks to operate has provided much needed healthy competition in the money markets, resulting in fair amount of improvement in their functioning.

The Indian financial markets remained orderly, notwithstanding the impact of global developments and tight liquidity conditions in domestic markets. Call rate firmed up in step with policy rates and tight liquidity conditions.It mostly remained above the upper bound of the LAF corridor during the third quarter of 2010-11. Both commercial paper (CP) and certificate of deposit (CD) markets remained active as alternative sources of finance. The yield curve for Government Securities (G-Sec) shifted, reflecting expectation of policy rate changes in an inflationary environment. The Indian Rupee appreciated moderately against the US dollar and stock prices rose on the back of strong foreign portfolio inflows. Prices in the housing market in general continued the rising trend during the second quarter of 2010-11.

3.1 INTER BANK MARKET

Money market denotes inter-bank market where the banks borrow and lend among themselves to meet the short term credit and deposit needs of the economy. Short term generally covers the time period upto one year. The money market operations help the banks tide over the temporary mismatch of funds with them. In case a particular bank needs funds for a few days, it can borrow from another bank by paying the determined interest rate. The lending bank also gains, as it is able to earn interest on the funds lying idle with it. In other words, money market provides avenues to the players in the market to strike equilibrium between the surplus funds with the lenders and the requirement of funds for the borrowers. An important function of the money market is to provide a focal point for interventions of the RBI to influence the liquidity in the financial system and implement other monetary policy measures.

3.2 RBI INTERVENTION

Depending on the economic situation and available market trends, the RBI intervenes in the money market through a host of interventions. In case of liquidity crunch, the RBI has the option of either reducing the Cash Reserve Ratio (CRR) or pumping in more money supply into the system. Recently, to overcome the liquidity crunch in the Indian money market, the RBI has released more than Rs 75,000 crore with two back-to-back reductions in the CRR.

3.3 LINK WITH FOREIGN EXCHANGE MARKET

In addition to the lending by the banks and the financial institutions, various companies in the corporate sector also issue fixed deposits to the public for shorter duration and to that extent become part of the money market mechanism selectively. The maturities of the instruments issued by the money market as a whole, range from one day to one year. The money market is also closely linked with the Foreign Exchange Market, through the process of covered interest arbitrage in which the forward premium acts as a bridge between the domestic and foreign interest rates.

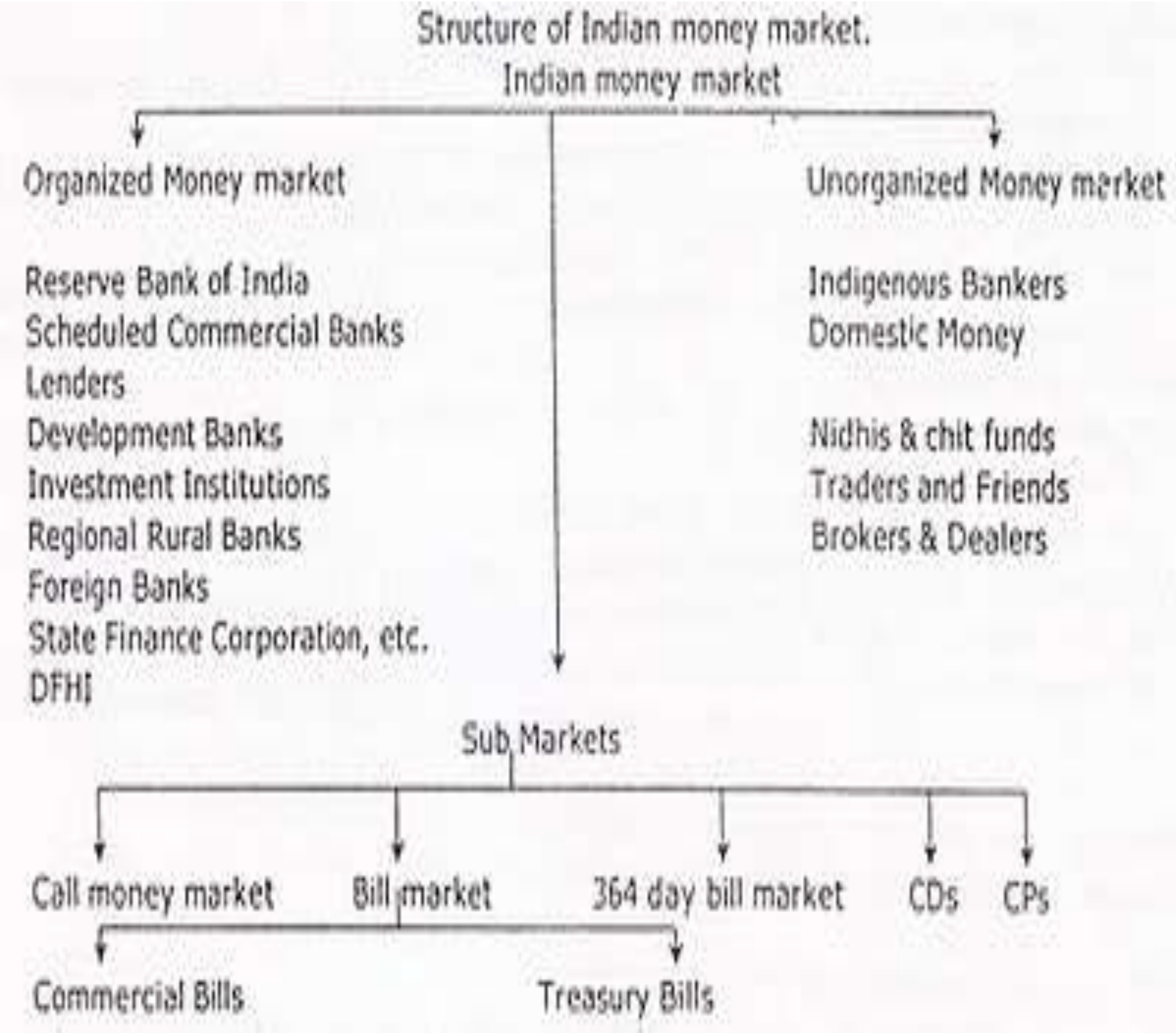
3.4 DETERMINATION OF APPROPRIATE INTEREST FOR DEPOSITS

Determination of appropriate interest for deposits or loans by the banks or the other financial institutions is a complex mechanism in itself. There are several issues that need to be resolved before the optimum rates are determined. While the term structure of the interest rate is a very important determinant, the difference between the existing domestic and international interest rates also emerges as an important factor. Further, there are several credit instruments which involve similar maturity but diversely different risk factors. Such distortions are available only in developing and diverse economies like the Indian economy and need extra care while handling the issues at the policy levels.

4. STRUCTURE OF THE MONEY MARKET IN INDIA

In view of the rapid changes on account of financial deregulation and global financial markets integration, central banks in several countries have striven to develop and deepen the money markets by enlarging the ambit of instruments5 and participants so as to improve the transmission channels of monetary policy. The structure of money markets determines the type of instruments that are feasible for the conduct of monetary management. Evidence and experience indicate that preference for market oriented an instrument by the monetary authorities helps to promote broader market development (Forssbaeck and Oxelheim, op cit).

The entire money market in India can be divided into two parts. They are organised money market and the unorganized money market. The unorganised money market can also be known as an unauthorized money market. Both of these components comprise several constituents. The following chart will help you in understanding the organisational structure of the Indian money market.



1. **CALL MONEY MARKET** : It an important sub market of the Indian money market. It is also known as money at call and money at short notice. It is also called inter bank loan market. In this market money is demanded for extremely short period. The duration of such transactions is from few hours to 14 days. It is basically located in the industrial and commercial locations such as Mumbai, Delhi, Calcutta, etc. These transactions help stock brokers and dealers to fulfill their financial requirements. The rate at which money is made available is called as a call rate. Thus rate is fixed by the market forces such as the demand for and supply of money.

RECENT DEVELOPMENTS IN CALL MONEY MARKET

Banks and primary dealers in government securities may soon have more flexibility in borrowing and lending in the call money market. The Reserve Bank of India said that banks may be allowed to borrow and lend in the inter bank call money market based on their assets and liability match rather than prudential limits.

In the call money market, banks can currently borrow not beyond 100 % of their capital funds on a fortnightly average basis and on daily basis it cannot exceed 125 %they can lend up to 25 % of their capital fund on a fortnightly average basis and 50 % on daily basis. With the rising credit demand, the RBI will also review the Inter-bank participation certificates scheme to improve assets liability management and liquidity management. The debt market would require more investor if the statutory liquidity ratio of banks is cut, the RBI said.

With respect to SLR, the central bank said," The investor base needs to be widened in the views of possibilities of reduction in the captive investor base resulting from the scaling down of the SLR from the present level".

2. COMMERCIAL BILL MARKET : It is a market for the short term, self liquidating and negotiable money market instrument. Commercial bills are used to finance the movement and storage of agriculture and industrial goods in domestic and foreign markets. The commercial bill market in India is still underdeveloped.

3.TREASURY BILL MARKET : This is a market for sale and purchase of short term government securities. These securities are called as Treasury Bills which are promissory notes or financial bills issued by the RBI on behalf of the Government of India. There are two types of treasury bills. (i) Ordinary or Regular Treasury Bills and (ii) Ad Hoc Treasury Bills. The maturity period of these securities range from as low as 14 days to as high as 364 days. They have become very popular recently due to high level of safety involved in them.

Treasury Bills, one of the safest money market instruments, are short term borrowing instruments of the Central Government of the Country issued through the Central Bank (RBI in India). They are zero risk instruments, and hence the returns are not so attractive. It is available both in primary market as well as secondary market. It is a promise to pay a said sum after a specified period. T-bills are short-term securities that mature in one year or less from their issue date. They are issued with three-month, six-month and one-year maturity periods. The Central Government issues T- Bills at a price less than their face value (par value). They are issued with a promise to pay full face value on maturity. So, when the T-Bills mature, the government pays the holder its face value. The difference between the purchase price and the maturity value is the interest income earned by the purchaser of the instrument. T-Bills are issued through a bidding process at auctions. The bid can be prepared either competitively or non-competitively. In the second type of bidding, return required is not specified and the one determined at the auction is received on maturity. Whereas, in case of competitive bidding, the return required on maturity is specified in the bid. In case the return specified is too high then the T-Bill might not be issued to the bidder.

At present, the Government of India issues three types of treasury bills through auctions,namely, 91-day, 182-day and 364-day. There are no treasury bills issued by State

Governments. Treasury bills are available for a minimum amount of Rs.25K and in its multiples. While 91-day T-bills are auctioned every week on Wednesdays, 182-day and 364-day T-bills are auctioned every alternate week on Wednesdays. The Reserve Bank of India issues a quarterly calendar of T-bill auctions which is available at the Banks' website. It also announces the exact dates of auction, the amount to be auctioned and payment dates by issuing press releases prior to every auction. Payment by allottees at the auction is required to be made by debit to their/ custodian's current account. T-bills auctions are held on the Negotiated Dealing System (NDS) and the members electronically submit their bids on the system. NDS is an electronic platform for facilitating dealing in Government Securities and Money Market Instruments. RBI issues these instruments to absorb liquidity from the market by contracting the money supply.

RECENT DEVELOPMENTS

Primary yields on Treasury Bills (TBs) firmed up during Q1 of 2011-12 in line with the spike in short-term interest rates (Table1). The rise in yields reflected a sharp increase in Government short-term borrowing, through issuances of TBs over and above the amount as per the indicative calendar announced in March 2011 as also through issuances of Cash Management Bills (CMBs) to meet the unanticipated sharp cash flow mismatches, particularly, in the wake of large tax refunds.

TABLE 1 PRIMARY YIELD ON TREASURY BILLS

Year/ Month	Notified Amount (₹ crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)		
		91-day	182-day	364-day
1	2	3	4	5
2009-10	3,80,000	3.57	3.97	4.38
2010-11	3,03,000	6.18	6.48	6.56
Apr-11	30,000	7.32	7.60	7.65
May-11	44,000	8.05	8.24	8.25
Jun-11	53,000	8.21	8.19	8.32
Jul-11*	20,000	8.16	8.27	8.27

*: Up to July 15, 2011.

Source: RBI

4. REPO (REPURCHASE) TRANSACTION : Repo or Reverse Repo are transactions or short term loans in which two parties agree to sell and repurchase the same security. They are usually used for overnight borrowing. Repo/Reverse Repo transactions can be done only between the parties approved by RBI and in RBI approved securities viz. GOI and State Govt Securities, T-Bills, PSU Bonds, FI Bonds, Corporate Bonds etc. Under repurchase agreement the seller sells specified securities with an agreement to repurchase the same at a mutually decided future date and price. Similarly, the buyer purchases the securities with an agreement to resell the same to the seller on an agreed date at a predetermined price. Such a transaction is called a Repo when viewed from the perspective of the seller of the securities and Reverse Repo when viewed from the perspective of the buyer of the securities.

Thus, whether a given agreement is termed as a Repo or Reverse Repo depends on which party initiated the transaction. The lender or buyer in a Repo is entitled to receive compensation for use of funds provided to the counterparty. Effectively the seller of the security borrows money for a period of time (Repo period) at a particular rate of interest mutually agreed with the buyer of the security who has lent the funds to the seller. The rate of interest agreed upon is called the Repo rate. The Repo rate is negotiated by the counterparties independently of the coupon rate or rates of the underlying securities and is influenced by overall money market conditions.

5. MARKET FOR CERTIFICATE OF DEPOSITS (CDs) : It is again an important segment of the Indian money market. The certificate of deposits is issued by the commercial banks. They are worth the value of Rs. 25 lakh and in multiple of Rs. 25 lakh. The minimum subscription of CD should be worth Rs. 1 Crore. The maturity period of CD is as low as 3 months and as high as 1 year. These are the transferable investment instrument in a money market. The government initiated a market of CDs in order to widen the range of instruments in the money market and to provide a higher flexibility to investors for investing their short term money.

Advantages of Certificate of Deposit as a money market instrument

1. Since one can know the returns from before, the certificates of deposits are considered much safe.

2. One can earn more as compared to depositing money in savings account.

3. The Federal Insurance Corporation guarantees the investments in the certificate of deposit.

Disadvantages of Certificate of deposit as a money market instrument:

1. As compared to other investments the returns is less.

2. The money is tied along with the long maturity period of the Certificate of Deposit.

3.Huge penalties are paid if one gets out of it before maturity.

6. MARKET FOR COMMERCIAL PAPERS (CPs) : It is the market where the commercial papers are traded. Commercial paper (CP) is an investment instrument which can be issued by a listed company having working capital more than or equal to Rs. 5 cr. The CPs can be issued in multiples of Rs. 25 lakhs. However the minimum subscription should at least be Rs. 1 cr. The maturity period for the CP is minimum of 3 months and maximum 6 months. This was introduced by the government in 1990.

7. SHORT TERM LOAN MARKET: It is a market where the short term loan requirements of corporate are met by the Commercial banks. Banks provide short term loans to corporate in the form of cash credit or in the form of overdraft. Cash credit is given to industrialists and overdraft is given to businessmen.

8. BANKER'S ACCEPTANCE: It is a short term credit investment created by a non financial firm and guaranteed by a bank to make payment. It is simply a bill of exchange drawn by a person and accepted by a bank. It is a buyer's promise to pay to the seller a certain specified amount at certain date. The same is guaranteed by the banker of the buyer in exchange for a claim on the goods as collateral. The person drawing the bill must have a good credit rating otherwise the Banker's Acceptance will not be tradable. The most common term for these instruments is 90 days. However, they can very from 30 days to180 days. For corporations, it acts as a negotiable time draft for financing imports, exports and other transactions in goods and is highly useful when the credit worthiness of the foreign trade party is unknown. The seller need not hold it until maturity and can sell off the same in secondary market at discount from the face value to liquidate its receivables.

9. PASS THROUGH CERTIFICATES: This is an instrument with cash flows derived from the cash flow of another underlying instrument or loan. The issuer is a special purpose vehicle (SPV), which only receives money, from a multitude of may be several hundreds or thousands, underlying loans and passes the money to the holders of the PTCs. This process is called securitization.

Legally speaking PTCs are promissory notes and hence tradable freely with no stamp duty payable on transfer. Most PTCs have 2-3 year maturity because the issuance stamp duty rate makes shorter duration PTCs unviable.

10. DATED GOVERNMENT SECURITIES: These are securities issued by the Government of India and State Governments. The date of maturity is specified in the securities therefore they are known as dated securities. The Government borrows funds through the issue of long term dated securities, the lowest risk category instruments in the economy. They are issued through auctions conducted by RBI, where RBI decides the coupon or discount rate based on the response received. Most of these securities are issued as fixed interest bearing securities, although the government sometimes issues zero coupon instruments and floating rate securities.

(₹ Crore)

Year/Month	Average Daily Volume (One leg)			Commercial Paper		Certificates of Deposit	
	Call Money	Market Repo	CBLO	Outstanding	WADR (%)	Outstanding	WAEIR (%)
1	2	3	4	5	6	7	8
Sep-09	8,059	27,978	62,388	79,228	5.04	2,16,691	5.30
Oct-09	7,888	23,444	58,313	98,835	5.06	2,27,227	4.70
Nov-09	6,758	22,529	54,875	1,03,915	5.17	2,45,101	4.86
Dec-09	6,651	20,500	55,338	90,305	5.40	2,48,440	4.92
Jan-10	6,411	14,565	50,571	91,564	4.80	2,82,284	5.65
Feb-10	6,809	19,821	63,645	97,000	4.99	3,09,390	6.15
Mar-10	8,812	19,150	60,006	75,506	6.29	3,41,054	6.07
Apr-10	8,187	20,319	50,891	98,769	5.37	3,36,807	5.56
May-10	8,393	17,610	42,274	1,09,039	6.85	3,40,343	5.17
Jun-10	7,129	9,481	31,113	99,792	6.82	3,21,589	6.37
Jul-10	9,477	12,011	29,102	1,12,704	6.93	3,24,810	6.69
Aug-10	7,958	15,553	45,181	1,26,549	7.32	3,41,616	7.17
Sep-10	8,606	15,927	53,223	1,12,003	7.82	3,37,322	7.34
Oct-10	8,920	14,401	43,831	1,49,620	12.15	3,43,353	7.67
Nov-10	8,865	9,967	32,961	1,17,793	12.22	3,32,982	8.16
Dec-10	9,436	12,989	43,784	1,02,156 @	12.52	3,28,566 #	9.01

@: As on December 15, 2010 #: As on December 17, 2010

CBLO: Collateralised Borrowing and Lending Obligation WADR: Weighted Average Discount Rate

WAEIR : Weighted Average Effective Interest Rate.

TABLE 2 SHOWS ACTIVITIES IN MONEY MARKET SEGMENTS

CONCLUSION

To sum up, the money market is a key component of the financial system as it is the fulcrum of monetary operations conducted by the central bank in its pursuit of monetary policy objectives. It is a market for short-term funds with maturity ranging from overnight to one year and includes financial instruments that are deemed to be close substitutes of money. The money market performs three broad functions. Firstly, it provides an equilibrating mechanism for demand and supply of short-term funds. Secondly, it enables borrowers and lenders of short-term funds to fulfil their borrowing and investment requirements at an efficient market clearing price. Three, it provides an avenue for central bank intervention in influencing both quantum and cost of liquidity in the financial system, thereby transmitting monetary policy impulses to the real economy. The objective of monetary management by the central bank is to align money market rates with the key policy rate. As excessive money market volatility could deliver confusing signals about the stance of monetary policy, it is critical to ensure orderly market behaviour, from the point of view of both monetary and financial stability. Thus, efficient functioning of the money market is important for the effectiveness of monetary policy.

REFERENCES

Abaruchis, A. T. (1993), “International Financial Markets Integration: An Overview”.

Anthony Saunders & Marcia Millon Cornett(2001),”Financial Markets and Institutions, A modern Perspective”

Arthur, W. Brain, 1995: Complexity in Eco-nomic and Financial Markets.

Bevir, M and Trentmann, F (eds) (Nov 2007) Markets in Historical Contexts

Ideas and Politics in the Modern World. Cambridge: Cambridge University Press.

DAVID M. DARST, The Handbook of the Bond and Money Markets (1981),

Glen Arnold, 2nd Edition,”The Financial Times Guide to Investing”.

L.M Bhole,2004,”Financial Institutions and markets”.

MARCIA STIGUM, The Money Market, 3rd ed. (1990)

Marc, Levinson.(2003.) “Guide to Financial Markets”. Bloomberg Press.

M.S. Gopalan, Deep & Deep, 2000 ,” Indian Money Market : Structure, Operation and Developments”.

R.Bhaskaran,2011,”Securities markets and products”.

Stansell, S. R., ed., International Financial Market Integration, Oxford, Blackwell.

TIMOTHY D. ROWE (eds.), Instruments of the Money Market, 6th ed. (1986)