

- **Efficient Capital Markets** Capital market deal with financial assets or securities. Securities will be fairly priced in the capital markets if they are efficient. Capital markets are considered to be efficient if the prices of securities reflect the available information. Depending on the extent of the information being impounded in the security prices, capital markets may be efficient in weak, semi-strong or strong form.
- **India's Capital Market** includes primary, secondary, OTC and derivatives segments. As a consequence of the growing economy and the government's policy of liberalisation and deregulation, the various segments of capital market in India have grown at phenomenal rates. The first stock exchange—the Bombay Stock Exchange—was established in 1875. Now there are 23 stock exchanges in India. The number of shareholders has increased to about 30–40 million. There are about 9000 listed companies. Both the market capitalisation and volume of trades have shown general growth, although they have fluctuated over years. Stock exchanges in India have well-developed procedures for listing, trading, settlement etc. The recent changes include shortening of the trading and settlement period, rolling settlement, index-based price bands, dematerialised

share etc. A number of systems and rules exist for the regulation of the stock exchanges. The Securities and Exchange Board of India (SEBI) is the central regulatory authority regulating capital markets in India.

- **Primary Capital Market** Companies raise new capital in the primary markets either through public issues, rights issues or private placement. In India new issues market has shown phenomenal growth after the eighties. A number of companies are able to raise substantial amount from the capital market. The corporate sector's dependence on the financial institutions for their funds requirements is declining with the development of the new issues market. We can also witness new financial instruments such as convertible securities, zero-coupon debentures, warrants, special premium notes etc. being issued by companies for raising capital. Yet another significant development is the free pricing of the new issues by companies. Within the norms prescribed by SEBI, a company can decide the issue price of its securities. Now companies are also allowed book-building. In book-building investors make price bids for shares. This leads to price discovery and the issuing company can assess the demand based on different prices.

- **Secondary Capital Market** Secondary market deals with securities that have been previously issued. The over-the-counter market and the derivatives market are other two forms of the secondary market.
- **OTC Market** is an informal market where negotiated deals take place. **Derivatives Market** deals in future and options; it is basically a market for future delivery and payment. Options provide right, but not obligations to buy or sell securities. Therefore, in option market delivery is conditional. In the derivatives market options and future may include individual securities or index.
- **Merchant Bankers** play the role of intermediaries in the capital market in India. They help companies in the total management of issues of securities. Therefore, they are called issue managers. As members of stock exchange, underwriters of new issues and book builders, the help to make market, and hence, are known as market makers also. Merchant bankers cannot undertake the pure fund-based activities.
- **Mutual Funds** provide a mechanism for collective investment. Generally they mobilise funds from individual investors and invest the collected funds in

portfolios of securities. There are two basic types of mutual funds: open-ended and close-ended. An investor can buy and sell units or shares of open-ended funds at the market price continuously. In close-ended funds, the net asset value per share or unit is determined based on the total value of investment. Within these two broad categories, mutual funds may offer income funds, growth funds, balanced funds, tax-savings funds etc. Mutual funds companies also offer index funds and hedged funds to investors. Index funds invest investors' money in combination of securities in a general index like Sensex or in some sector index. Hedged funds are broad based and may include foreign exchange market also. They combine several investment strategies and try to maximise investors' returns. Mutual funds have several advantages to investors: simplicity, diversification, professional expertise, affordability and flexibility. They do have certain limitations: high brokerage, ownership risk, or no opportunity of making extra-ordinary profit.