

Introduction to Capital Market

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Meaning

The capital market operates through various intermediaries, such as investment banks, brokerage firms, and stock exchanges, which play essential roles in facilitating the flow of capital. New securities are issued and sold directly to investors in the primary market through initial public offerings (IPOs) or private placements. This enables companies and governments to raise funds for their financing needs.

Features of Capital Market

- ▶ Diverse investment opportunities
- ▶ Capital formation
- ▶ Market efficiency
- ▶ Risk management
- ▶ Long-term investment opportunities

Functions of Capital Market

- ▶ Mobilizing savings
- ▶ Facilitating price discovery
- ▶ Providing liquidity

Types of Securities Traded

- ▶ Common stocks
- ▶ Bonds
- ▶ Debentures
- ▶ Preference shares
- ▶ Mutual funds
- ▶ Exchange-traded funds (ETFs)
- ▶ Real estate investment trusts (REITs)
- ▶ Government securities
- ▶ Corporate bonds

Difference Between Capital Market and Money Market

Feature	Capital Market	Money Market
Instruments	Stocks, bonds and debentures.	Treasury bills, commercial paper, certificates of deposit.
Maturity Period	Long-term (more than one year).	Short-term (up to one year).
Liquidity	Relatively less liquid compared to money market instruments.	Highly liquid.
Risk	Higher risk due to longer maturity periods.	Lower risk due to short maturity periods.
Purpose	To fund long-term investments and growth.	To manage short-term liquidity needs.

Capital Market Segments

- ▶ **1. Primary Market:** The public issue is of two types; they are:
 - **Initial Public Offer (IPO):** Public issue made by an unlisted company for the very first time, which after making issue lists its shares on the securities exchange is known as the Initial Public Offer.
 - **Further Public Offer (FPO):** Public issue made by a listed company, for one more time is known as a follow-on offer.
- ▶ **2. Secondary Market:** The secondary market is a type of capital market where existing shares, debentures, bonds, options, commercial papers, treasury bills, etc. of the corporates are traded amongst investors. The secondary market can either be an auction market where trading of securities is done through the stock exchange or a dealer market, popularly known as Over the Counter where trading is done without using the platform of the stock exchange.

Basis for Comparison	Primary Market	Secondary Market
Meaning	The market place for new shares is called primary market.	The place where formerly issued securities are traded is known as Secondary Market.
Another name	New Issue Market (NIM)	After Market
Type of Purchasing	Direct	Indirect
Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification.	It does not provide funding to companies.
How many times a security can be sold?	Only once	Multiple times

Buying and Selling between	Company and Investors	Investors
Who will gain the amount on the sale of shares?	Company	Investors
Intermediary	Underwriters	Brokers
Price	Fixed price	Fluctuates, depends on the demand and supply force
Organizational difference	Not rooted to any specific spot or geographical location.	It has physical existence



THANK YOU!