



- [Life Skills Courses](#)
- [Personal Finance Courses](#)
- [Farming Courses](#)
- [Business Courses](#)
- [Career Building Courses](#)
-
-

[Download Financial Freedom App and Start your journey to achieve Financial Freedom Now](#)



Search in Indianmoney's WealthPedia

Search anything on Money

[Home](#) [Articles](#) Functions Of Money Market

Functions Of Money Market

IndianMoney.com Research Team | Posted On Friday, March 15,2019, 04:27 PM

- ★
- ★
- ★
- ★
- ★

4.4 / 5 based on 27 User Reviews

Open your mind to open more doors

CFA Institute [Become a CFA® charterholder](#)



www.IndianMoney.com | 022-6181-6111



What is Money Market?

A money market is a component of the [financial market](#) where financial instruments with high liquidity and very short maturities are traded. Money market is a platform that enables lenders and borrowers trade in assets that have maturities of less than a year. These short-term instruments are highly liquid, easily marketable, with a minimum chance of a loss.

Money market provides for the quick and dependable transfer of short-term debt instruments maturing in a year or less. Money market instruments are used to finance the needs of consumers, businesses, agriculture and the banks. Money market transactions take place between companies and various financial institutions and not between individuals. However, individuals can invest small amounts in [money market funds](#).

The money market is a wholesale market where many financial instruments are traded. The money market consists of call money market, commercial bills market, commercial paper market, Treasury bill market, inter- bank market and certificates of deposit market.

Want to know more on [Investment Planning](#)? We at IndianMoney.com will make it easy for you. Just give us a missed call on 022 6181 6111 to explore our unique Free Advisory Service. [IndianMoney.com](#) is not a seller of any financial products. We only provide FREE financial advice/education to ensure that you are not misguided while buying any kind of financial products.

SEE ALSO: [What is Money Market?](#)

Functions Of Money Market

Features of Money Market:

Summarized below are some of the important features of a developed money market:

- It has an organized [banking system](#).
- It consists of several sub-markets that deal with different types of credit instruments.
- A developed money market consists of near- money assets of various types like bills of exchange, treasury bills and bonds.

Open your mind to open more doors



CFA Institute

Become a CFA® charterholder

- Issuers of the money market instruments have good [credit ratings](#). Therefore, it is obvious that the money market instruments are safe for investment purposes.
- One of the main features of money market instruments is that they are issued at a discounted price to face value.

Instruments of the Money Market:

Bill of exchange/ commercial bills:

A bill of exchange is a written unconditional order by one party to another, to pay a specified amount of money either immediately or on a fixed date. A bill of exchange is a document used in international trade to pay for goods and services. It is signed by the person promising to pay and given to the person receiving the payment. A bill of exchange can be compared to a promissory note.

Treasury Bills:

Treasury bills are short term borrowing instruments issued by the Government of India. These are the oldest [money market instruments](#) that are still in use. The treasury bills do not pay any interest, but are available at a discount to face value at the time of the issue. Treasury bills can be classified in two ways i.e. based on maturity and based on type. These are the safest instruments as they are backed by a government guarantee. The rate of return, also known as risk-free rate, is low for Treasury bills like T-364, T-182 and so on, as compared to all other instruments.

Commercial Papers:

Commercial Paper is an unsecured money market instrument, issued in the form of a promissory note. It was introduced in India in 1990 with the objective of enabling corporate borrowers diversify their sources of short-term borrowings and to provide an additional investment instrument to investors. Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet [short-term debt](#) obligations (for example, payroll), and is backed only by an issuing bank or company's promise to pay the face value on the maturity date specified on the note.

Certificate of Deposit:

A certificate of deposit is a savings instrument that is similar to a fixed deposit. Unlike fixed deposit, certificate of deposit cannot be withdrawn before maturity. These deposits have a fixed maturity date and a specified rate of interest.

The certificate of deposit was introduced in the Indian market in the year 1989 to increase the options among money market instruments. Certificates of deposit are issued by scheduled [commercial banks](#) and some select financial institutions in India and are monitored by the RBI. The RBI issues guidelines for certificate of deposit from time to time.

Banker's Acceptance:

A banker's acceptance is a document that promises future payment that is guaranteed by the commercial bank. It is considered to be a very safe investment option and is widely used in foreign trade. Banker's acceptance are time drafts which are accepted and guaranteed by the bank and drawn on a deposit at the bank. The maturity period of banker's acceptance can range from 30 to 180 days.

Repurchase Agreements:

These are known as Repo or reverse Repo. They are loans of short duration which are agreed by buyers and sellers for the purpose of trading. However, the transactions are carried out between institutions approved by the Reserve Bank of India.

Functions of Money Market:

A money market plays an important role in the allocation of resources in the economy by performing the following important functions.

Provides Funds:

Open your mind to open more doors



CFA Institute

Become a CFA® charterholder

Therefore, money market issues money market instruments like commercial papers, treasury bills and so on and helps in the development of trade, industry and commerce within and outside India. The money market plays an important role in financing domestic and [international trade](#).

Use of Surplus Funds:

The money market provides a platform where the banks and other lending institutions can lend excess money for a short period of time and earn profits. This fulfils the main objectives of the commercial banks i.e. to earn income from reserves as well as maintain liquidity to meet the cash required for daily transactions. The institutions that can lend funds in money market not only include commercial banks and other financial institutions, but also comprises of non-financial business corporations, central, state and local governments.

No Need to Borrow From Banks:

A developed money market helps commercial banks become self-sufficient. The existence of an established money market increases the options of borrowing money at lower interest rates and helps commercial banks and the central bank.

However, if there is a shortage of cash in the commercial banks and [central banks](#), they can call in some of their loans from the money market. Most of the commercial banks like SBI, Union Bank, BOI and others prefer to recall their loans.

Helps Government:

The money market instruments help the government raise money for financing government projects for public welfare and infrastructure development. The government can borrow short term funds by issuing treasury bills at low interest rates. On the other hand, if the government were to issue paper money or borrow from the central bank, it would lead to inflation in the economy.

Helps in Monetary Policy:

A properly functioning money market helps the central bank successfully implement monetary policies. Though the central bank can function and influence the banking system in the absence of a money market, the existence of a developed money market helps in the efficient functioning and increases the effectiveness of the central banks. The money market helps the central banks in the following ways:

1. Short-run interest rates serve as an indicator of the monetary and banking conditions in the country and, in this way, guide the central bank to adopt an appropriate banking policy.
2. Sensitive and integrated money markets help the central bank secure quick and widespread influence on the sub-markets, thus facilitating effective policy implementation.

Helps in Financial Mobility:

The money market helps in financial mobility by enabling easy transfer of funds from one sector to the other. Financial mobility is essential for the development of industry and commerce in the economy.

Promotes Liquidity and Safety:

This is one of the most important functions of money market, as it provides safety and liquidity of funds. It also encourages savings and investments. These investment instruments have shorter maturity which means they can readily be converted to cash. The money market instruments are issued by entities with good credit score which makes them safe investment options. [Check free credit score](#) on IndianMoney.com.

Equilibrium Between Demand and Supply of Funds:

The money market creates a balance between the demand and supply of [loanable funds](#). The money market helps in allocating savings into investment channels. A money market helps in mobilizing savings and make better use, by allowing them to be invested through the

Open your mind to open more doors



CFA Institute

Become a CFA® charterholder

As the money market deals in near-money assets and not proper money, it helps in economizing the use of cash. It provides a convenient and safe way of transferring funds from one place to another, thereby immensely helping commerce and industry in India.

SEE ALSO: [Functions Of Money Market](#)

You May Also Watch

How to Mint Money in Stock Market - Stock Market Tutorial | Money ...



Keep your Financial Cognizance up to date with IndianMoney App. Download NOW for simple tips & solutions for your financial wellbeing.

Have a complaint against any company? IndianMoney.com's complaint portal lamcheated.com can help you resolve the issue. Just visit lamCheated.com and lodge your complaint. If you want to post a review on any company you can post it on Indianmoney.com [review and complaint portal lamCheated.com](#).

Be Wise, Get Rich.

Related Articles



List of Private Banks in India

www.IndianMoney.com | 022-6181-6111

GET IT ON Google Play

Open your mind to open more doors



CFA Institute

Become a CFA® charterholder

[See more](#)

India at Expo 2020

Visit the Expo to witness how the pavilion celebrates the cultural diversity of India.

India at Expo 2020

Did you find this article useful? You can Rate us

- ★
- ★
- ★
- ★
- ★

4.4 / 5 based on 27 User Reviews

Fixed Deposit Money Market Money Market Instruments Deposit Market Features Of Money Market



Get free Personalized Money tips!

Get weekly tips on how to Save, Spend, Borrow, Invest Money wisely. Be the first one to know the new things happening in the world of Finance. Our free articles and tips will help you become a Financial Wizard.

Name

Email

Send me tips!



IndianMoney.com Research Team

The research team at IndianMoney.com comprises of certified and experienced professionals who share the company's vision to make every Indian financially literate by equipping every Indian with right and unbiased advice. IndianMoney.com research team provides

Open your mind to open more doors



CFA Institute

Become a CFA® charterholder



Latest Stories

[What Is Medium Duration Fund? Advantages of Medium Duration Fund](#)

23 March 2020, Monday

[Performance analysis of public sector banks in India](#)

21 March 2020, Saturday

[What Is Credit Risk Fund? Advantages of Credit Risk Fund](#)

21 March 2020, Saturday

[How to save tax through HUF?](#)

21 March 2020, Saturday

[Markets are Down - Is It Good to Invest?](#)

20 March 2020, Friday

[How much gold should you have in your investment portfolio?](#)

20 March 2020, Friday

[Things you Should Know Before You Go for a Gold Loan](#)

19 March 2020, Thursday

[Should You Stop SIPs During Coronavirus?](#)

19 March 2020, Thursday



Calculators

[Car loan EMI Calculator](#)

[Home loan EMI Calculator](#)

[Personal loan EMI Calculator](#)

[Investment Calculator](#)

[Human Life Value Calculator](#)

[Child Goal Planner Calculator](#)

[Income Tax Calculator](#)

• Ask **Money** Doctor



Open your mind to open more doors



CFA Institute

Become a CFA® charterholder



You May Like

Sponsored Links

Michael J. Fox Is 60, This Is How He Looks Now

Lawyers Blvd

by Taboola



Magnolia Infrastructure



You May Like

Sponsored Links by Taboola

30 People from History Who Look Exactly Like Today's Celebrities

Lifestly.com

Real Estate Prices in LA Might Surprise You

LA Real Estate | Search Ads

[Gallery] Teenage pole vaulter's life is almost ruined after pictures go viral

Tips and Tricks

NBA's Richest: How Much Does Your Favorite Basketball Player Have?

Networthus.com

Always Place A Ziplock Bag On Your Car Mirror When Traveling Alone, Here's Why

Cleverst



Open your mind to open more doors



Become a CFA® charterholder

Attention!

This is to inform that Suvision Holdings Pvt Ltd ("IndianMoney.com") do not charge any fees/security deposit/advances towards outsourcing any of its activities. All stake holders are cautioned against any such fraud.

+91-9008575014

contact@indianmoney.com

LOCATE US

No. 50, Vinay Arcade, K H Road,
Shantinagar,Bengaluru,
India, 560027



Get the Android App

Get the iOS App

FREEDOM APP

- [Life Skills Courses in Tamil](#)
- Our Story [Personal Finance Courses in Tamil](#)
- About App [Farming Courses in Tamil](#)
- Our Team [Business Courses in Tamil](#)
- Director's [Career Building Courses in Tamil](#)
- Careers

SUPPORT

- Contact Us
- Terms & Conditions
- Privacy Policy
- IamCheated.Com
- Sitemap

COURSES IN ENGLISH

- Life Skills Courses in English
- Personal Finance Courses in English
- Farming Courses in English
- Business Courses in English
- Career Building Courses in English

COURSES IN TELUGU

- ✓ [Life Skills Courses in Telugu](#)

Open your mind to open more doors



CFA Institute

Become a CFA® charterholder

Career Building Courses in Telugu

COURSES IN HINDI

Life Skills Courses in Hindi

Personal Finance Courses in Hindi

Farming Courses in Hindi

Business Courses in Hindi

Career Building Courses in Hindi

COURSES IN MALAYALAM

Life Skills Courses in Malayalam

Personal Finance Courses in Malayalam

Farming Courses in Malayalam

Business Courses in Malayalam

Career Building Courses in Malayalam

COURSES IN KANNADA

Life Skills Courses in Kannada

Personal Finance Courses in Kannada

Farming Courses in Kannada

Business Courses in Kannada

Career Building Courses in Kannada

COURSES IN TAMIL

© 2021 IndianMoney.com (Suvision Holdings Private Limited), All Rights Reserved



Open your mind to open more doors



CFA Institute

Become a CFA® charterholder