

# Money Market Instruments

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## **INTRODUCTION**

The money market involves the trading of short-term debt investments, typically with maturities of less than a year. It includes large trades between institutions at the wholesale level and money market mutual funds or accounts for individual investors at the retail level. Known for its high liquidity, the money market is a safe space for short-term borrowing and lending.

Key money market instruments include:

1. Certificate of Deposit (CD)
2. Commercial Paper (CP)
3. Treasury Bills
4. Inter-Bank Participation Certificates
5. Bill Rediscounting
6. Inter-Bank Term Money

Key participants in the money market are institutions like the Reserve Bank of India (RBI), commercial banks, co-operative banks, LIC, GIC, UTI, and others. The RBI plays a crucial role in controlling currency flow and credit within the market.

## **ABSTRACT**

This paper examines the Indian money market, focusing on its key instruments, participants, and challenges. While the money market plays a crucial role in short-term borrowing and lending, issues such as fund shortages, an unregulated sector, and technological delays hinder its efficiency. Using secondary data and primary survey results, the study explores the market's liquidity, investor behavior, and perceptions. The findings highlight the need for reforms to improve market accessibility, reduce interest rate disparities, and enhance regulatory oversight. The paper concludes with recommendations to strengthen the money market, particularly through government intervention and technological advancements.

## **OBJECTIVES**

- Provide borrowers with affordable short-term funds.
- Ensure liquidity for lenders through short-term securities.
- Enable lenders to convert idle funds into profitable investments.
- Comply with government rules and regulations.
- Regulate liquidity in the economy.

- Assist organizations with working capital funding.
- Offer banks opportunities to invest surplus funds.

### **RESEARCH PROBLEM**

- Shortages of Funds: Low savings, inadequate banking, lack of banking habits, and a parallel economy contribute to frequent fund shortages.
- Unorganized Money Market: The unregulated sector, often found in rural areas, operates outside the RBI's control, creating exploitation and debt traps for borrowers. The government is working to address this.
- Technological Delays: Slow technological upgrades, especially in rural areas, hinder the smooth functioning of the money market. However, India's tech advancements could greatly improve it.
- Weak Banking Infrastructure: The banking sector is concentrated in cities, leaving rural areas underserved, limiting the efficiency of the money market.
- Interest Rate Disparities: A lack of uniformity in interest rates across different sectors (government, co-operatives, commercial banks) creates inefficiencies in fund mobility and market functioning.
- Seasonal Fluctuations: Interest rates and money supply fluctuate significantly from November to June, with funds being added during busy seasons and withdrawn during lean periods.

### **RESEARCH METHODOLOGY**

- Aim of the Paper: To critically examine the Indian Money Market and its instruments in the current scenario, addressing its relevance, roadblocks, and necessary reforms.
- Data Source: Based on secondary data from research papers, articles, newspapers, blogs, reference websites, and reports.
- Content Overview: The paper discusses the importance of the money market, the role of its instruments across sectors, key challenges, government initiatives, and suggested solutions.

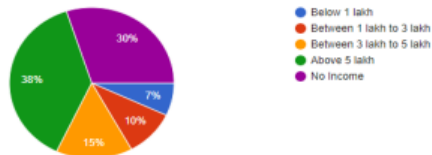
### **HYPOTHESIS**

- Ho – The future of the Indian Money Market looks to be full of growth.
- Ha – The future of the Indian Money Market does not look to be full of growth.
  
- Ho – The Indian Money Market is highly liquid.
- Ha – The future of the Indian Money Market is not highly liquid.
  
- Ho – The Indian Money Market provides higher returns than most bank account deposits.
- Ha – The Indian Money Market does not provide higher returns than most bank account deposits.

## PRIMARY DATA WITH ANALYSIS

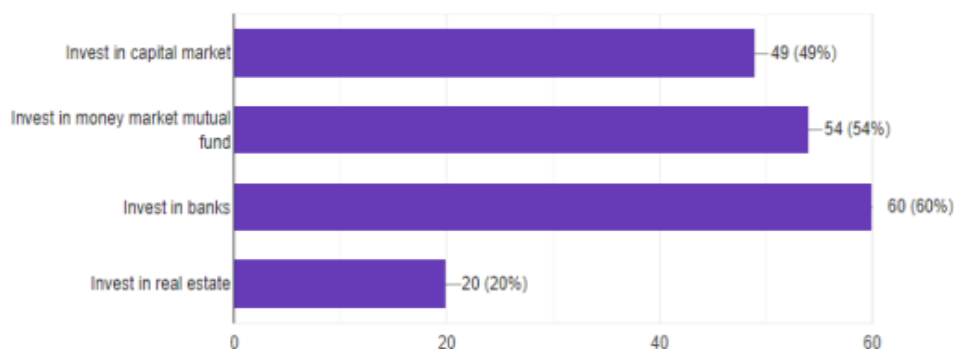
1) What is your annual income?

SR. NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	Below 1 lakh	7	7%
2	Between 1 lakh to 3 lakhs	10	10%
3	Between 3 lakhs to 5 lakhs	15	15%
4	Above 5 lakhs	38	38%
5	No income	30	30%



**Interpretation :** There are a total 100 responses out of which 7% respondents have annual income of below 1 lakh. 10% respondents have an annual income between 1 lakh to 3 lakhs, between 3 lakhs to 5 lakhs were of 15%, above five lakhs were 38% and for no income there are 30%.

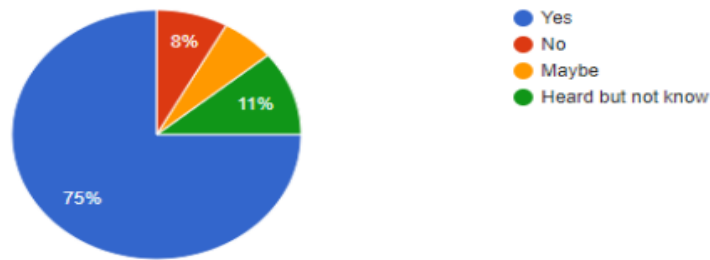
SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	Invest in capital market	49	49%
2	Invest in money market mutual fund	54	54%
3	Invest in bank	60	60%
4	Invest in real estate	20	20%



**Interpretation :** From the above data we can see that 49% of the respondents invest in capital market, 54% of respondents invest in money market mutual fund, 60% invest in banks and 20 % invest in real estate.

3) Do you have any knowledge about money market instruments?

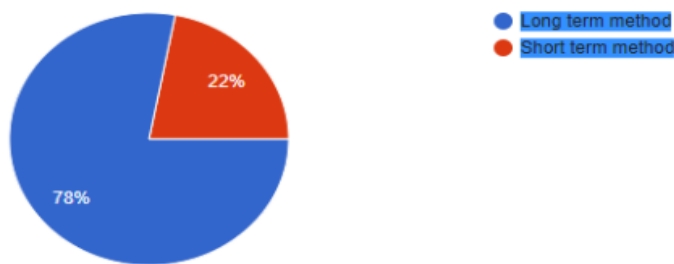
SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	YES	75	75%
2	NO	8	8%
3	MAYBE	6	6%
4	HEARD BUT DON'T KNOW	11	11%



**Interpretation :** From the above analysis we can see that 75% have heard about money market and knows about that, while there are 6% people who aren't sure about this, 11% people have heard about the term money market but have no knowledge about that and then about 8% of the respondents don't know anything about money market.

4) How long would you like to hold your money market instruments?

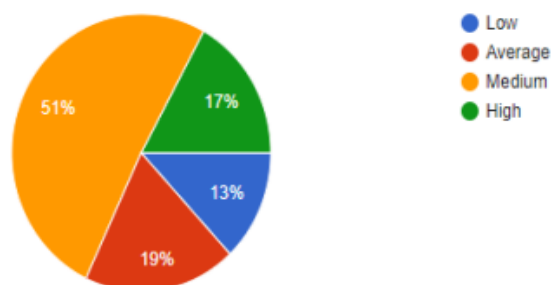
SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	LONG TERM METOD	78	78%
2	SHORT TERM METHOD	22	22%



**Interpretation :** From the above data 78% of the people like to keep money market instruments for long term method while other people which are about 22 % keep it for the short-term method. We can see that most of them are willing to keep their investment for long term.

5) How much risk will you be willing to take?

SR NO.	PARTICULARS	FREQUENCY	PERCENTAGE
1	LOW	13	13%
2	AVERAGE	19	19%
3	MEDIUM	51	51%
4	HIGH	17	17%



**Interpretation :** From the above data we can see that 13% respondents will take low level of risk, while 17% of respondents will take high amount of risk. 19% of respondents will take risk at average level. Most of the respondents are willing to take average number of risks.

## **CONCLUSION**

- Money market accounts and funds are among the safest investments, offering returns higher than inflation.
- Due to their low risk, they're commonly used by individuals and businesses for short-term cash reserves.
- The Indian money market is undergoing significant changes due to government interventions and reforms.
- Increased participation from both rural and urban populations, along with technological upgrades, aims to make the market more efficient and profitable.
- India's money market is expanding rapidly but needs further growth to positively influence the economy.
- The government is working to enhance the efficiency and reach of the money market across the country.

## **FINDINGS AND SUGGESTIONS**

Suggestions to Improve India's Money Market:

- Regulation of Indigenous Banking: Bring indigenous banks under the Reserve Bank of India's control to improve the money market's efficiency.
- Development of Bill Market: Increase rediscounting facilities and promote a sound bill market, with active efforts from the Reserve Bank.
- Standardization of Hundis: Standardize hundis by setting uniform rules for their form, language, and usage to support bill market development.
- Warehousing Facilities: Expand warehousing facilities to enable more people to access bank loans based on warehouse certificates.
- Clearing Houses: Increase and reorganize clearing houses for greater efficiency in the money market.
- Expansion of Remittance Facilities: Extend cheap and fast remittance options to indigenous bankers through the Reserve Bank.
- Eliminate Interest Rate Variations: Address the interest rate disparities between organized and unorganized sectors.
- Lower Stamp Duty: Reduce stamp duty on bills to increase their popularity.

## **REFERENCE**

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