FINANCIAL ECONOMICS

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FINANCIAL ECONOMICS

- A branch of economics that analyzes the use and distribution of resources in markets.

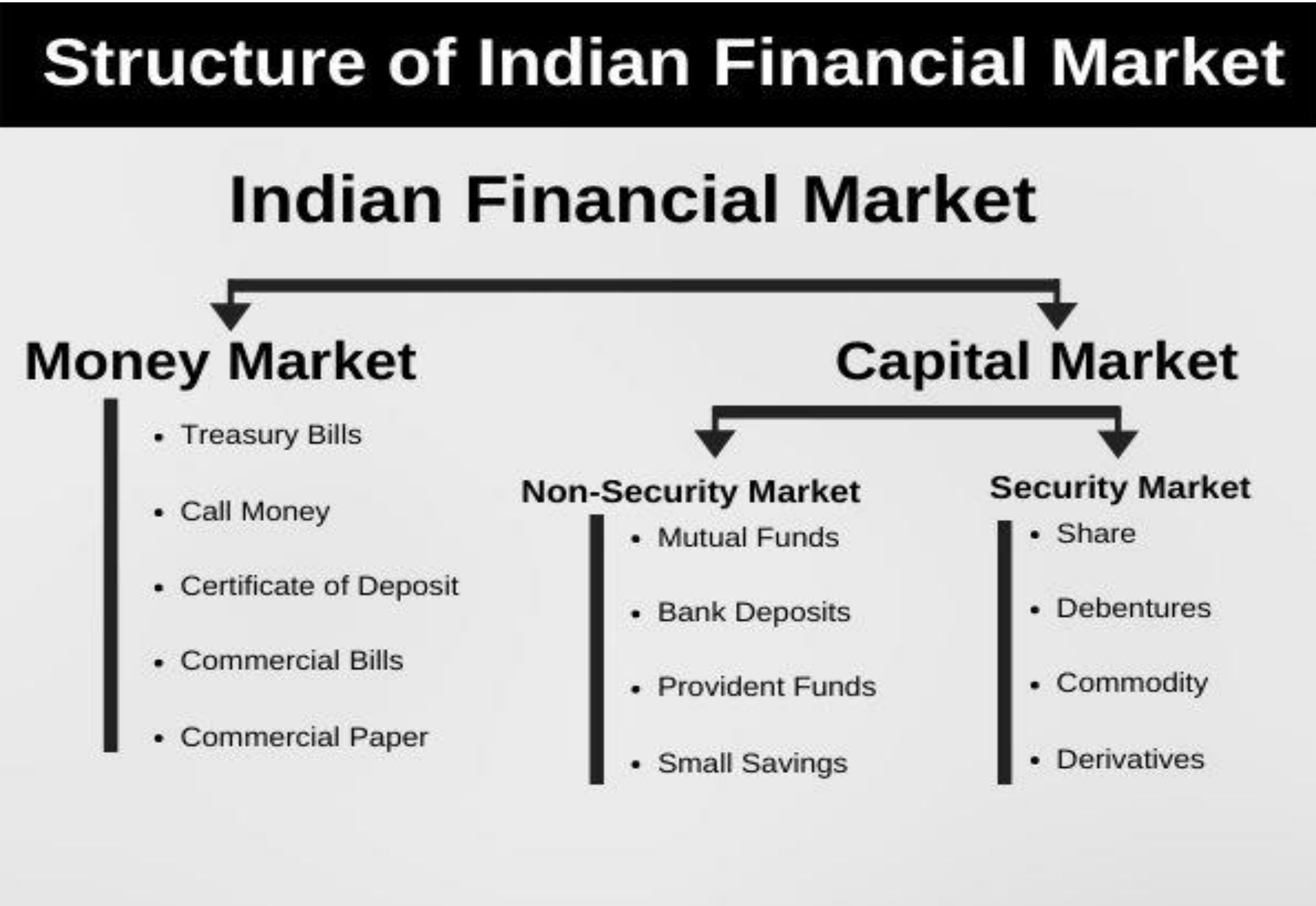
- Financial decisions must often take into account future events, whether those be related to individual stocks, portfolios, or the market as a whole.

CONCEPTS OF FINANCIAL ECONOMICS

- Theory of economics to analyse the impact of financial decisions in terms of opportunity costs, expected cash flows, the market value of asset or securities, and so on.
- The factors which influence financial decision making include time, the risk involved, information available (facts and legal regulations), and prices. Macro factors, such as inflation, recession, deflation, and the interest rate policy also influence decision making.
- Financial economics uses various financial models for testing the numerous factors or variables which can affect decision making. The underlying assumption of the various financial models is that individuals and institutions would act rationally. However, the irrational behaviour of parties is also one of the factors influencing decision making.

- Financial economics uses a lot of mathematical, statistical, and other metrics to analyze the influencing factors and evaluate risks. The portfolio theory and capital asset pricing model are used to evaluate risk and returns and determine the future value of a financial product.
- Unlike traditional economics, financial economics studies financial exchanges which involve the exchange of money on both the sides of a trade. The two important aspects of financial economics are discounting, and risk management and diversification.
- Discounting deals with time value of money. Whereas, risk management and diversification recognize the inherent risk in financial products, and the need to diversify and hedge risk.

STRUCTURE OF FINANCIAL MARKETS



FUNCTIONS OF FINANCIAL MARKETS

LONG TERM FINANCE

- **Sources :**
  - *Capital market*
  - *Special financial institution*
  - *Banks*
  - *Non-banking financial companies*
  - *Retained earnings and foreign investment*
  - *External borrowings*

FINANCIAL INSTITUTIONS

- LIC
- UTI
- IDBI &
- ICICI.

LIC

- Life Insurance Corporation of India (LIC) is an Indian central public sector undertaking headquartered in Mumbai, Maharashtra, India.
- It is under the ownership of Ministry of Finance, Government of India.
- The Life Insurance Corporation of India was established on 1 September 1956, when the Parliament of India passed the Life Insurance of India Act, nationalizing the insurance industry in India.
- Over 245 insurance companies and provident societies were merged together

Objectives of LIC of India

- Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
- Maximize the mobilization of people's savings by making insurance-linked savings adequately attractive.
- Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
- Conduct business with utmost economy and with the full realization that the money belongs to the policyholders.

Functions of LIC

- The main function of LIC is to collect the savings of the people through a life insurance policy and invest that money in various financial markets.
- One of the main functions of LIC is to invest fund into government securities so as to protect the capital of the people who have given their money to LIC.
- LIC has to issue an insurance policy at affordable rates to people.
- LIC provides direct loans to industries at lower interest rates. The rate of interest is as low as 12% for the entire tenure.
- It is one of the major stakeholders in many of the blue-chip companies in the Indian stock market.
- It also provides refinancing activities through SFCs in different states and cities.

UTI

- A unit trust is an investment plan in which the funds are pooled together and then invested. The fund which is pooled is then unitized and the investor who is one party to the unit trust is called a unitholder, holding a certain number of units.
- A second party i.e the manager is responsible for the day-to-day running of the trust and for investing the funds.
- The trustee, governed by the Trust Companies Act 1967, is the third party, and their role is to monitor the manager's performance against the trust's deed.

Primary Objectives of UTI

- To promote and pool the small savings from the lower and middle-income persons who cannot have direct access to the stock exchange, and
- To provide them with an opportunity to share the benefits of prosperity resulting from rapid industrialization in india.

Functions of UTI

- Mobilize the saving of the relatively small investors.
- Channelize these small savings into productive investments.
- Distribute the large scale economies among small income groups.
- Encourage savings of lower and middle-class people.
- Sell nits to investors in different parts of the country.
- Convert the small savings into industrial finance.
- To give investors an opportunity to share the benefits and fruits of industrialization in the country.
- Provide liquidity to units.
- Accept discount, purchase or sell bills of exchange, warehouse receipt, documents of title to goods etc.,

IDBI

- Industrial Development Bank of India Limited shall be treated on par with Nationalized Banks/ State Bank of India by the Government Departments / Public Sector Undertakings/ other entities for all purposes including deposits/ bonds / investments / guarantees etc. and Government business.
- On May 7, 2008, the Industrial Development Bank of India Limited was renamed as “IDBI Bank Limited” pursuant to the fresh Certificate of Incorporation issued by the Registrar of Companies, Maharashtra, Mumbai, in terms of section 21 of the Companies Act, 1956.
- The Reserve Bank of India, Mumbai, vide Notification No. DBOD.BP.BC.No.2101002/2007-08 dated May 16, 2008 (published in the Gazette of India (Part III – Section 4), dated June 14, 2008), stated that the name “Industrial Development Bank of India Limited” be substituted by “IDBI Bank Limited” in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) with effect from May 7, 2008

OBJECTIVES OF IDBI

- Coordinating,supervising, and controlling the activities of Financial Institutions like ICICI, LIC, etc.
- The Collection of resources for other financial institutions and providing financial assistance
- Planning and promoting key industries to enhance industrial growth
- To build a system that adheres to national priorities

Functions of IDBI

- The promotion and development of the industries to bridge the gaps between the industrial structure are crucial functions of IDBI
- The preparation and floating of new projects for industrial development is an important activity performed by the IDBI
- Research on market and investment, surveys, and studies to understand the complexity and contribute towards industrial growth

- Purchasing shares that are concerned with industries
- The Coordination of activities performed by other financial institutions
- Extension of technical and administrative support for the expansion of industries
- Offering refinancing facilities to the Industrial Finance Corporation of India (IFCI), Securities and Futures Commission (SFC), and other financial institutions approved by the Government of India

ICICI

- ICICI bank is a multinational banking and financial service company with its registered office in Vadodara and corporate office in Mumbai.
- It offers a wide range of banking activities. The key products and services that it offers to its customers are retail banking, corporate banking, investment banking, mortgage loans, private banking, wealth management, credit cards, and finance and insurance.
- It is one of the big four banks of India and has subsidiaries in the United Kingdom and Canada.

Functions and Activities of ICICI Bank

- The objective of ICICI bank is to meet the needs of the private industry for long and medium-term funds in the private sector.
- In general terms, the main functions are: Assistance in the formation, development, and modernization of business in the non-public sector.
- Provides medium and long-term loans in rupees and foreign currencies. Underwrites new issues of debentures and shares.
- Provides equipment finance Promoting and supporting the expansion of markets and motivating private ownership of the industrial investment.

PUBLIC DEPOSITS

- The unsecured deposits or money invited by companies from the public mainly to finance their short or long-term working capital needs.

MUTUAL FUNDS

- A Company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt.

- The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds.

THANK YOU