ijiTECH International Journal of Innovative Technologies
WWW.IJITECH.ORG
ISSN 2321-8665
Volume.10, Issue.02,
July-December,2022,
Pages:57-59

A Study on Importance of Capital Market in Economy

MUNIGONDA MAMATHA[1], D. SRISAILAM[2]
[1]PG Scholar, Dept of Management, Teegala Krishna Reddy Engineering College (Autonomous), Medbowli, Meerpet, Hyderabad, Telangana, India.
[2]Assistant Professor, Dept of Management, Teegala Krishna Reddy Engineering College (Autonomous), Medbowli, Meerpet, Hyderabad, Telangana, India, Email: sri09143657@gmail.com.

Abstract: All participants in the capital markets are wondering how they can finance investments or invest existing money. The answer to these questions depends on your situation: lack of or excess capital. This article addresses issues related to the place and role of the capital market within financial markets and in the financing of investments, and seeks to highlight the growing importance of this subsystem, which is becoming visible to both economic actors and all categories of investors.

Keywords: Capital Market, Stock Exchange, Investment, Economic Development.

I. INTRODUCTION

It is very difficult today to imagine the times when there were no banks, stock markets, money markets, government debt, times when a person's wealth was measured only by the area of land owned, by the number of animals you owned possessed as well as by the number of workers that could be used in the field work. Thrifts took the form of gold or silver goblets or jewels, and usury—the practice of earning interest on money—was forbidden by both law and church. The capital market is now a reality found in every modern economy. It is a market whose necessity is undeniable, an extremely dynamic and innovative entity that constantly adapts to the economic environment and at the same time is an influencer on it, generating opportunities and risks alike for all categories of participants Economic activity as a reflection of a small-scale economy , but still particularly representative. According to the conditions of its creation and development, the capital market combines different concepts under this syntagma. The continental European conception ascribes to this market a more comprehensive structure that includes the money market, the mortgage market and the financial market. In the Anglo-Saxon view, which has also taken over economic practice in this country, the capital market is part of the financial market together with the money market and the insurance market.

II. CAPITAL MARKETS COMPONENTS AND FUNCTION

The special nature of this market results from numerous aspects, but the following characteristics are formative and at the same time differentiating them from other components of the financial market:

- It is a market specialized in medium and long-term financial asset transactions, as opposed to the money market, which offers solutions for refinancing with short and medium-term capital;
- It is a public, open and transparent market in the sense that anyone can participate in this market without significant barriers to entry or exit as transactions are public in nature;
- The dissemination of information in this market is probably the best of what exists in the structure of a market economy because of its volume or speed and the possibility of equal absorption by all participants;
- The vehicles of capital circulation are securities, which are characterized by tradability of price and immediate transferability with very low transaction costs;
- The transaction is conducted through intermediaries, who play an essential role in matching the owners or issuers of securities with the owners of capital;
- It entails risks, both for the issuer and the investor, specific to each financial instrument concerned, but at the same time offers complex solutions to minimize and spread them, both from a financial and operational point of view;
- It is an organized market in the sense that transactions are carried out according to certain principles, norms and rules that are known and accepted by the participants. This does not mean the management of the market, but its regulation with the aim of creating or maintaining the conditions for the development of free competition, i.e. a system to ensure the free and open character of all transactions.

In a market economy, the capital market plays a prominent role. The proper functioning of the capital market is vital in today's economy to allow for an efficient transfer of funds from those who are saving to those who need capital and those who succeed in providing it with greater capitalization ; The capital market can significantly influence the quality of investment decisions. Depending on the timing of the transaction, the capital market is divided into two time-dependent segments: primary and secondary. The primary market has the task of placing the issuance of securities in order to attract the financial capital available in the medium and long term, both on the internal capital markets and on the international capital markets, attractive to public economies.

The Secondary Market – Once the securities have been issued, they are subject to secondary market transactions through their issuance in the primary market. The existence of this type of market offers the owners of stocks and bonds the opportunity to capitalize on them before they bring any profit (dividends or interest). At the same time, the secondary market represents the possibility of concentrating in one place private or institutional investors who can sell or buy securities with the guarantee that they are valuable and can be reintroduced into the cycle at any time. The secondary market is also the almost perfect expression of the free balance between supply and demand for securities, since it is a barometer primarily of a country's capital needs, but also of its economic, social and political health. From this perspective, the secondary capital market can be viewed as the perfect market where the law of supply and demand finds the perfect terrain for its unhindered action. The secondary market ensures the mobility of capital, liquidity in the long and medium term, the tradability of all securities that pass through the primary market, while attracting professional investors but also amateur investors hoping for a maximum profit in record time.

The stock exchange is an important institution of the capital market, specific to the market economy, which negotiates the supply and demand for securities openly, freely and permanently, on the basis of known regulations, in the same geographical and economic area. The stock exchanges always provide a highly sensitive and accurate barometer of the economic, geopolitical and foreign exchange status quo. The price at which a security is traded reflects, positively or negatively, the economic and financial condition of the company that issued it sense exactly. In most cases, a change in the price of a particular security can lead to chain changes affecting other securities due to the interdependencies in an economy, but also on a global scale. It is true that the exchange can sometimes register false signals (random or directional) that disrupt the actual situation. The psychological and emotional factors have always had, and will continue to play, a notable role. A question that entrepreneurs and small or large companies keep asking themselves is: What is the optimal way to finance investments? The answers are not many and are the same for a long time: Either use your own assets, either apply for a subsidy from the state or another institution or somewhere else, or take out a bank loan or go to the stock exchange. The first option is possible only for those who have the necessary capital. The second option is determined by exceptional situations.

In terms of bank credit, although it is a more realistic option than the other two, it may not be the most sought after, firstly because it is expensive (interest rates are generally quite high) and secondly because of the banks, a series of tough and strict ones Set conditions that are often difficult for the applicant to meet. One way for an entrepreneur or a company to raise money (capital) without solving the problems posed by the above options is the public sale of stocks or bonds through the stock exchange. The stock exchange ensures the shortest and most efficient way between the economies or temporary capital surpluses of those who want to invest in the medium or long term (be it companies, funds, banks, insurance companies or simple private individuals) and the financing needs of entrepreneurs or commercial companies. The stock exchange thus becomes a strong competitor for the banks and represents a serious alternative to bank loans, which are often more expensive and difficult to obtain. From the above, it is clear that the main role of stock markets is to finance the economy (especially economic actors) by mobilizing capital in the medium and long term. Another important role of the stock exchange is that it facilitates the circulation of capital by easily converting the securities into cash or converting them into other securities by selling or reselling them in this market. The most important function of the stock exchange is that transactions with the securities issued and initially placed on the primary capital market are settled here. Once the securities have been issued and placed with investors, their tradability makes them freely tradable on the stock exchange, thus guaranteeing the investor that they can recover the funds placed, of course at the value they have on the market at that time.

The exchange is also the location and vehicle for some major reorganizations and reorganizations in the industry. A redistribution of financing within the economy is taking place on the stock markets: The financial resources are geared towards more lucrative or promising fields, because an investor can very easily sell and invest in securities that he believes are no longer very well placed in a sector that he considers more attractive holds. Another interesting aspect is the increasingly frequent company acquisitions and mergers via the stock exchange. The exchange facilitates these operations and is the main vehicle through which the takeover bid is conducted. The takeover bid is the transaction conducted by a brokerage company by which an investor declares that he is willing to buy part or all of the shares of a trading company in which he is interested in the market at a fixed price and within a specified period of time Time. Thus, most takeovers, transfers and mergers take place on the stock exchange. The sale-purchase price for the listed securities is constantly determined and displayed on the stock exchange. The stock exchange provides systematic information about the price of the listed securities and implicitly information about the listed companies and even the respective economy as a whole. An important indicator in this sense is the market capitalization of a listed company, which reflects the market value of that company: it is calculated by multiplying the total number of shares of that company by their market price.

To assess the dimensions of a stock market, the total market capitalization can also be calculated by adding up all the market values (market capitalizations) of the companies listed on these markets. After all, the stock exchange reflects the overall situation of an economy and its trends and prospects particularly well. Particularly useful for this is the study of the stock market indices, calculated as an average of the developments and the volume of transactions for a representative sample of stocks or for their entirety, on each stock exchange in part. The gathering of the capital that is temporarily available in the economy, the redistribution of capital that is insufficiently or inefficiently capitalized at any given time, and even the facilitation of some sector restructuring are intended to outline the place that the capital market currently occupies in the economy of many countries, not just the most developed ones. The observation that equal attention must be paid to the construction and development of an efficient financial market in developing countries is just as justified as the concern about expanding the tele communications infrastructure. This is more important in transition countries considering that resources need to be reallocated from inefficient sectors to efficient sectors to ensure efficiency gains in the economy, support the economic reform process and even privatization policies.

III. CONCLUSION

The importance of the financial market derives from its significant role in the finances (financing) of companies and the state, from the share of direct financing in financing methods. Beyond the apparently important thing - the high transaction volume on the stock exchange - what counts above all is the place that the (primary) market occupies in the development of the first public limited companies (direct financing), which is sometimes forgotten or appears secondary. The smooth functioning of the financial market is a strong basis for ensuring sustained and long-term growth of the national economy; the financial market and above all the capital market represent the engine of economic development in many countries – and could also in romania. If they are, to some extent, substitutable as sources of funding, then it should not be assumed that banking system funding and capital market funding are entirely substitutable, but rather complementary. In most cases, stock or bond issuance complements rather than replaces bank loans, particularly when allocating some key resources to sustaining some large investment plans is desired, when a longer horizon for the loan's maturity is sought, or even not obtain eligible funds for the price of capital dilution and future dividends. More and more issuers are resorting to financing instruments that long ago seemed too sophisticated, and the 'theoretical' benefits of listing are beginning to materialize in practice. The ability of the capital market to mobilize important funds is now no longer in doubt and from now on every listed company will also consider issuing bonds or shares as a financing option. The Romanian capital market is ready both for financing companies and for using some sophisticated methods to form the subscription price and seems to be keen on new securities due to the behavior of investors lately. This does not mean that it can absorb all the financing needs of the Romanian economy or that it can handle debt/equity financing ratios like those of the developed capital markets, but neither can it be said that it does not offer sufficient liquidity or so. The risk of price volatility is involved some public offerings is alarming. In addition, the current moment is particularly favorable for the development of this financing process for companies, a process also driven by a general economic situation favorable for investments, by a stock market that is in the sign of Taurus, by a penetration of Romania by important foreign capital funds, who strive for the most profitable placements possible.

IV. REFERENCES

[1] Caporale, G.; Howells, P., Soliman, A. (2004), Stock market development and economic grotwh: the causal linkage, Journal of Economic Development, vol. 29, no. 1.

[2]Levine, R.(1997), Stock Markets, Economic Development, and Capital Control Liberalization, Perspective - Investment Company Institute, vol.3, no.5, at http://www.ici.org/ pers pective/per03-05.pdf.

[3] Stoica, O. (2005), Pieţefinanciareeuropene, University course “AlexandruIoanCuza”, University of Iaşi.