ECONOMICS OF BANKING AND FINANCE

Course Code- 5B 11ECO

Syllabus

Module I

Financial System

Meaning, functions, structure of Indian financial system, Importance of financial system in the development of Indian economy.

Module II

Banking and Non- Banking Financial Institutions

Commercial Banks- Functions, liabilities and assets of banks, Mechanism of credit creation, Prerequisites of a sound commercial banking system, Role of commercial banks before and after nationalization in economic development in India, Rural Banks and Development banks, NABARD , IFCI, IDBI, ICICI, SIDBI, SFC. Non- Banking Financial Institutions, Definition and types of NBFI, Banking sector reforms, Innovation in Banking, ATM, E-Banking, Credit cards, Debit cards and Smart cards, Internet banking, Mobile banking and Core banking.

Module III

Financial Markets and Instruments

Money market, nature and functions, features of Indian money market. Components of money market and their instruments (Call money market, Treasury bill market, Commercial bill market, Certificate of deposit, Commercial papers).

Capital market: Features, functions, structure of Indian capital market, primary market and secondary market. Stock exchanges (BSE, NSE, OTCEI), Derivative market, financial derivative, types (forwards, futures, options, swaps). Internet trading, Stock market index, Financial sector Reforms.

Module IV

Regulatory Authorities

Central Bank, Functions and objectives, instruments of credit control, Quantitative and qualitative, Role of RBI in financial market. SEBI, Functions, role and working of SEBI. Measures taken by RBI and SEBI to regulate the financial system of Indian economy.

Module-1

Financial System

What is Financial System:-

The financial system deals with the financial transactions and the exchange of money between savers, invsetors, lenders and borrowers. Financial system are made of different integrate and complex models that link financial institutions and markets to provide financial services for various stakeholders operating in the financial systems like depositors, lenders ,borrowers, government and others. It is a network of financial institutions, financial markets, financial instruments and financial services to facilitate the transfer of funds.

The financial system is concerned about money, credit and finance. **Money** refers to the current medium of exchange or means of payment. **Credit** or loan is a sum of money to be returned normally with interest, it refers to a debit of economic unit. **Finance** is monetary resources comprising debt and ownership of funds the state, company or person.

Importance of financial system

Financial system acts as such a channel, which allows funds to move from savers to investors. The process of savings, finance and investment involves financial institutions, markets, instruments and services. Above all, supervision control and regulation are equally significant. Thus, financial management is an integral part of the financial system. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. It contributes to higher production and efficiency. It improves the consumers by allowing them to time their purchase better.

Functions of Financial System

The important functions of financial system are

1. **Increase (Encourage) the Savings**

- It provides a measure for managing and controlling the risk involved in mobilizing savings and allocating credit.
- It promotes the process of capital formation by bringing together the supply of saving and the demand for investible funds.
- It helps in lowering the cost of transaction and increase returns.

2. **Mobilization of Savings**

- It is a link between savers and investors. It utilizes mobilized savings of savers (who are not organized /scattered) in more efficient and effective manner.
- It provides payment mechanism for exchange of goods and services.
- It facilitate for the transfer of resources across geographic boundaries.
- It provides detailed information to the operators/ players in the market such as individuals, business houses, Governments etc.

3. **Proper Investment**

- It assists in the selection of the projects to be financed and also reviews the performance of such projects time to time.
- It channelizes flow of saving into productive investment

4. **Allocation of funds**

- To arrange smooth, efficient, and socially equitable allocation of credit.
- With modem financial development and new financial assets, institutions and markets have come to be organised, which are replaying an increasingly important role in the provision of credit.