International Journal of Management, IT & Engineering
Vol. 7 Issue 3, March 2017,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

MORAL CODE IN FINANCIAL MARKETS

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ABSTRACT

During 1980s, the developing countries were on track liberalizing their economies. There has been a better weight on the development of equity markets as a part of financial reforms. India has also pursued this passageway. Financial assets enclose explicit properties like fiscal value, divisibility, convertibility, reversibility, liquidity and cash flow that differentiate the physical assets led to the emergence of financial markets. In order to create financial market more competent and feasible, the process of capital formation is reliant on the investment policies and efficient operations of financial intermediaries, facilitating the flow of savings and investments. The regulatory and supervisory structure has experienced significant structural transformation. Trading of currencies and bonds is largely on a bilateral basis, although some bonds trade on a stock exchange, and people are building electronic systems for these as well, similar to stock exchanges.

Keywords: Equity Markets, liquidity, financial markets, bilateral basis and stock exchanges

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INTRODUCTION

Financial market prices may not indicate the true intrinsic value of a stock due to macroeconomic forces like taxes. In addition, the prices of securities are heavily reliant on informational transparency by the issuing company to ensure efficient and appropriate prices are set by the market. Financial markets provide channels for allocation of savings to investment. These provide a variety of assets to savers as well as various forms in which the investors can raise funds and thereby decouple the acts of saving and investment. The savers and investors are constrained not by their individual abilities, but by the economy's ability, to invest and save respectively. The financial markets, thus, contribute to economic development to the extent that the latter depends on the rates of savings and investment.

OBJECTIVES OF THE STUDY

1. To study about the concept of financial markets.
2. To describe the types of financial markets.
3. To assess the implication of ethics of financial markets.

METHODOLOGY

The study is based on Secondary Data. The data collection includes from:

1. The Global Financial Centers Index (GFCI)
2. Centre for Financial Markets and Risk Management
3. Securities Exchange Board of India
4. Forwards Markets Commission
5. Securities and Futures Bureau
6. Commodities Future and Trading Commissions
7. The 2014 Financial Markets Wall Street Daily

LIMITATIONS OF THE STUDY

The present study does not cover the widespread on financial markets due to the paucity of time and other restrictions. Secondary data are used.

REVIEW OF LITERATURE

A study by World Institute for Development Economic Research (WIDER, 1990) has argued that the developing countries should liberalize their financial markets in order to attract foreign portfolio equity flow.

Shah (1999) describes the financial sector reforms in India as an attempt at developing financial markets as an alternative vehicle determining the allocation of capital in the economy.

Chakrabarti and Mohanty (2005) discuss how capital market in India is evolved in the reform period. Thomas (2005) explains the financial sector reforms in India with stories of success as well as failure.

Mallikarjunappa and Afsal (2007) studied the volatility implications of the introduction of derivatives on the stock market in India using S&P CNX IT index and found that clustering and persistence of volatility in different degrees before and after derivatives and the listing in futures has increased the market volatility.

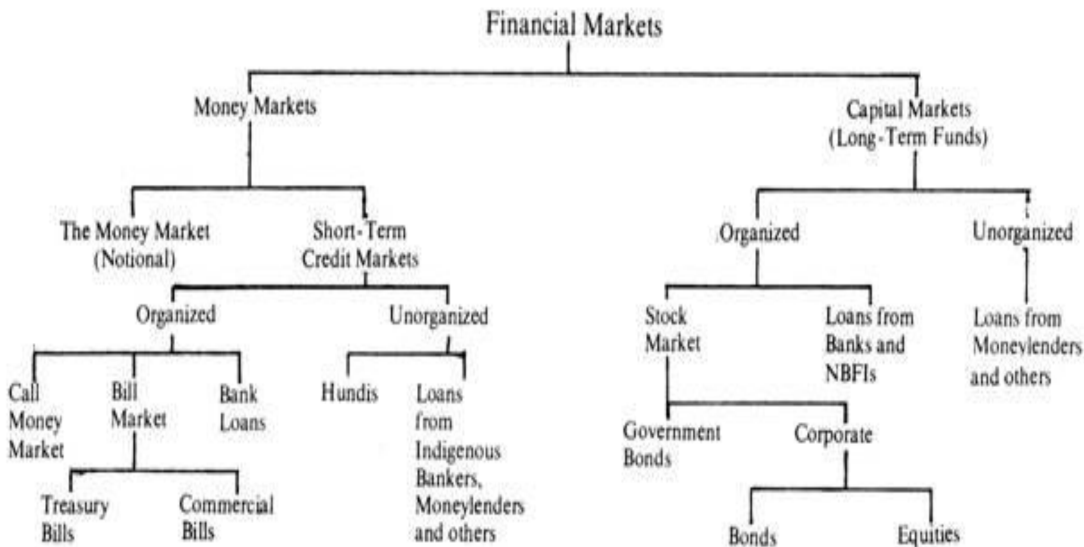
Prasad and Rajan (2008) argues that the time has come to make a more concerted push toward the next generation of financial reforms. The study advocates that a growing and increasingly complex market-oriented economy and its greater integration with global trade and finance will require deeper, more efficient, and well regulated financial markets.

CONCEPT OF FINANCIAL MARKETS IN INDIA

A financial market is a market in which people trade monetary securities commodities, and other fungible substance at low transaction costs that replicate supply and demand. Securities include stocks and bonds, and commodities include precious metals or agricultural products. Financial markets magnetize funds from investors and conduit a platform for corporations to finance their operations and achieve growth. A financial market consists of two major segments: (a) Money Market and (b) Capital Market. Money markets permit firms to borrow funds on a short term basis which deals in financial assets whose period of maturity is up to 1 year that does not deal with cash or money but credit instruments such as bills of exchange, promissory notes, certificate of deposit, trade bill, commercial paper and treasury bills, etc. The Indian money

market consists of Reserve Bank of India, Commercial banks, Co-operative banks, and other specialized financial institutions. The Reserve Bank of India is the leader of the money market in India. Some Non-Banking Financial Companies (NBFCs) and financial institutions like LIC, GIC, UTI, etc. also operate in the Indian money market while capital markets are consented to gain medium and long-term funding to support expansion (known as maturity transformation) by way of raising capital through shares, debentures and bonds etc.

During the 1980s and 1990s, a major augmentation was the trade in derivative products. In financial markets stock and bond prices, currency rates, interest rates as well as dividends oscillate creating risk. Derivative products are financial products or instruments used to control risk or ironically exploit risk. This market is co-terminus with the entire economy. The unorganized market is largely made up of indigenous bankers and moneylenders, chit funds, nidhis and non-professionals. It is unorganized because the activities are not systematically coordinated by the RBI or any other authority. There are few factors affecting financial markets.
Dealings of investors will instantaneously affect the value of stocks, bonds, and futures in the securities market. Business Cycles like boom, depression, inflation, deflation, economic crisis will affect the financial markets heavily. The government‘s interest rates, tax rates, trade policy and budget deficits all have an impact on prices. Economic Indicators include the Gross National Product, inflation rate, budget deficit and the unemployment rate. International Events such as change in currency values, trade barriers, wars, natural disasters, and changes in governments will affect adversely and ultimately influence the amount of investment.



TYPES OF FINANCIAL MARKETS

There are different types of financial markets and their characterization depends on the financial claims being traded and the needs of the different market participants.

Capital Market: The capital market aids rising of capital on a long-term basis, generally over 1 year. It consists of a primary and a secondary market and can be divided into two main subgroups – Bond market and Stock market.

A primary market is also called as new issue market where securities such as shares and bonds are being created and traded for the first time without using any intermediary such as an exchange in the process. When a private company decides to become a publicly-traded entity, it issues and sells its stocks at Initial Public Offering. IPOs are a strictly regulated process which is facilitated by investment banks or finance syndicates of securities dealers that set a starting price range and then oversee its sale directly to the investors.

A secondary market is the place where investors purchase previously issued securities such as stocks, bonds, futures and options from other investors from issuing companies, where the bulk

of exchange trading occurs which is called as "Stock Market". It includes the NYSE, Nasdaq and all other major exchanges.

Money Market: It allows economic units to manage their liquidity positions through lending and borrowing short-term loans, generally less than 1 year. It facilitates the interaction between individuals and institutions with temporary surpluses of funds and their counterparts who are experiencing a temporary shortage of funds.

1. The Stock Market is a series of exchanges where corporations raise large amounts of cash. Stocks are shares of ownership of a public firm that are sold to investors through broker dealers. Mutual funds enable to buy a lot of stocks at once by reducing stock market volatility.

2. The Commodities Market is where companies counterbalance their risk of purchasing or selling natural resources for future use. Since the prices of commodities like oil, corn and gold are so capricious, companies can lock in a known price today.

3. The Bond Market is where organizations obtain very large loans. Generally, when stock prices go up, bond prices go down. However, there are many different types of bonds, including Treasury Bonds, corporate bonds, and municipal bonds.

4. The Foreign Exchange market abets the foreign exchange trading. It's the largest, most liquid market in the world with an average traded value of more than $5 trillion per day. It includes all of the currencies in the world and any individual, company or country can participate in it.

5. Insurance Market helps in relocating various risks. Insurance is used to transfer the risk of a loss from one entity to another in exchange for a payment. The insurance market is a place where two peers, an insurer and the insured, or the so-called policyholder meet in order to strike a deal primarily used by the client to hedge against the risk of a tentative loss.

6. Derivatives are financial products that derive their value from underlying stocks, commodities, currencies, mortgages and bonds. They are primarily used by sophisticated investors and hedge

funds to magnify their potential gains. Hedge fund investments in subprime mortgages and other derivatives caused the 2008 global financial crisis.

WORKING OF FINANCIAL MARKETS

IMPLICATING ETHICAL CODE IN FINANCIAL MAKETS

The Model Code is officially endorsed by the FX Committees, central bankers and regulators in over 15 countries and provides the new global standards being developed by the BIS Single FX Code and the FICC Market Standards Board, for global adherence. The regulatory bodies like Financial Stability Board (FSB), the Basel Committee on Banking Supervision, the Council and the European Parliament have embarked on a broad-ranging reform programme. The legislation of the financial sector has changed considerably.

CONCLUSION

To realize national aspirations and keep pace with the changing times , the financial markets in India have gone through various stages of liberalization, bringing about fundamental and structural changes in the market design and operation, resulting in broader investment choices, drastic reduction in transaction costs, efficiency, transparency and safety that increased integration with the global markets. In reality a financial market can't be considered to be extremely efficient, or completely inefficient.

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