

What is the Capital Market?

The **capital market** is a financial market where businesses, governments, and other entities can raise long-term funds. These funds are typically raised through the sale of securities like stocks (equity) and bonds (debt). The capital market is essential for financing projects that require large amounts of money over an extended period, such as building infrastructure, expanding a business, or funding governmental operations.

The capital market is divided into two main segments:

1. **Primary Market:**

○ This is where new securities are issued and sold for the first time. For example, when a company decides to go public, it issues shares in the primary market through an Initial Public Offering (IPO). The money raised from this process goes directly to the company.

2. **Secondary Market:**

○ After securities have been issued in the primary market, they are traded among investors in the secondary market. Stock exchanges like the New York Stock Exchange (NYSE) or National Stock Exchange (NSE) are examples of secondary markets. The original issuer (like the company) doesn't receive money from these trades; the transaction is between investors.

Role of Capital Market

The capital market plays several key roles in the economy, all of which contribute to economic growth and stability:

1. **Mobilizing Savings:**

○ The capital market helps channel the savings of individuals and institutions into productive investments. Instead of just keeping money in a savings account, people can invest in stocks or bonds, which allows that money to be used by businesses and governments for various projects.

2. **Facilitating Capital Formation:**

○ By providing a platform for raising funds, the capital market supports the accumulation of capital. Companies and governments can use the money raised to finance new projects, expand operations, or undertake development initiatives, which can lead to job creation and economic development.



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3. Promoting Investment:

○ The capital market offers a range of investment opportunities. Investors can buy shares in companies or invest in bonds, allowing them to earn returns on their investments through dividends, interest, or capital gains. This encourages more people to invest, which increases the overall pool of funds available for businesses.

4. Providing Liquidity:

○ The secondary market provides liquidity to investors, meaning they can easily buy or sell their securities. This flexibility allows investors to access their money when needed, making the market more attractive.

