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Advance Accounting - Module 29

Difference between Capital Market and Money Market

Significance of the Money Market

1. **Helps with Short-Term Cash Needs:**
   - The money market is where businesses, banks, and the government get quick cash to meet their short-term expenses, like paying bills or salaries.
2. **Keeps the Economy Stable:**
   - By providing a place for financial institutions to manage their cash, the money market helps prevent financial crises, like bank failures.
3. **Supports Central Bank Policies:**
   - Central banks use the money market to control interest rates and manage the amount of money in the economy, which helps keep inflation in check.
4. **Offers Safe Investment Options:**
   - People and institutions can invest their extra money in safe and liquid (easy to sell) investments like Treasury Bills, helping them earn a bit of interest while keeping their money safe.

Significance of the Capital Market

1. **Funds Long-Term Projects:**
   - The capital market is where businesses and governments raise money for big projects, like building factories or infrastructure. They do this by selling stocks (shares) and bonds (loans).
2. **Provides Investment Opportunities:**
   - People can invest in stocks and bonds through the capital market, helping them grow their money over time.
3. **Supports Economic Growth:**
   - By directing money to businesses that need it for expansion, the capital market helps the economy grow.
4. **Encourages Good Business Practices:**
   - Companies that are publicly listed on the stock exchange have to be transparent about their finances and operations, which encourages them to operate honestly and efficiently.
5. **Reflects Economic Health:**
   - The capital market acts as a barometer for the economy. If stock prices are going up, it usually means the economy is doing well. If they are going down, it might be a sign of economic trouble.

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Comparison between the capital market and money market in tabular form:

Feature	Capital Market	Money Market
Definition	Market for long-term securities, such as stocks and bonds.	Market for short-term financial instruments.
Investment Duration	Long-term (more than one year).	Short-term (less than one year).
Instruments	Stocks, bonds, debentures, and mutual funds.	Treasury bills, commercial paper, certificates of deposit, and repurchase agreements.
Purpose	To raise long-term capital for business expansion, government projects, etc.	To manage short-term funding needs and liquidity.
Risk Level	Higher risk due to market fluctuations.	Lower risk due to the short-term nature of investments.
Return Potential	Higher potential returns but with greater risk.	Lower returns compared to the capital market.
Market Participants	Investors like individuals, institutional investors, and companies.	Banks, financial institutions, companies, and governments.
Liquidity	Less liquid compared to money market instruments.	Highly liquid due to the short-term nature of instruments.
Regulatory Authority	Regulated by authorities like SEBI in India.	Regulated by central banks (e.g., RBI in India).
Example of Transactions	Buying and selling stocks, issuing bonds.	Issuing treasury bills, interbank lending.