

MONEY MARKET

DEFINITION

The term money market is actually a misnomer. Money-currency is not traded in the markets rather short term securities highly liquid are traded in.

CHARACTERISTICS OF MONEY MARKETS

- Money markets securities have basic three characteristics
 - they are usually sold in large denominations
 - they have low default risk
 - maturity - one year or less from their original issue date
- money markets transactions do not take place in any one particular location or building.
- Money market is also a wholesale market.

NEED OF MONEY MARKETS

Though the banking industry exists primarily to provide short term loans and accept deposits, the banking industry is subject to more regulations and governmental costs than money markets. In situations where the asymmetric information problem is not severe, the money markets have a distinct cost advantage over banks in providing short term funds.

MONEY MARKET COST ADVANTAGES AGAINST BANKS

- **More return from investment in money market instruments**
- **Easy to invest in money market instruments**
- **Lesser cost of investment**
- **Short term recovery of investment**

PURPOSE OF MONEY MARKETS

- The well developed secondary market for money market instruments makes the money market an ideal place for a firm or financial institutions to “warehouse” surplus fund until they are needed.
- Money markets provide a low cost source of fund to firms, the government, and intermediaries that need short term infusion of fund.
- Money market is used as an interim investment that provide a higher return than holding cash or money in banks.
- To take advantage of investment opportunities, investment advisors often hold some in the money market.
- Money market offer a low cost source of temporary funds

PARTICIPANTS IN MONEY MARKETS

PARTICIPANTS	ROLE
US treasury Department	Sells US treasury securities to fund the national debt. US treasury is the largest of all money markets borrowers worldwide.
Federal Reserve system	Buys and sell US treasury securities as a primary method of controlling the money supply.
Commercial Banks	Buys US treasury securities; sells certificates of deposits and make short term loans; offer individual investors accounts that invest in money market securities

PARTICIPANTS	ROLE
Businesses	Buy and sell various short term securities as a regular part of their cash management
Investment companies (brokerage firm)	Trade on behalf of commercial account
Finance companies (commercial leasing companies)	Lend fund to individuals
Insurance companies(property and casualty insurance companies)	Maintain liquidity needed to meet unexpected demand
Pension fund	Maintain fund in money market instruments in readiness for investment in stocks and bonds
Individuals	Buy money markets mutual funds
Money markets mutual funds	Allows small investors to participate in the money market by aggregating their funds to invest in large denomination money market securities