Role of Money Related Showcase in Development of Indian Economy

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Abstract:- Money is traded as securities in the financial market, which could be obtained through various instruments, while following various rules and regulations. Those are implemented by government agencies and other organization of the world. Financial markets are mainly of two type's money market and capital market. Without any doubt there is quite an impact of financial market in the Indian economy. Economic growth is measured by GDP of the country. Hence in this study we will try to describe the role of financial market in economic growth of India by studying relation between financial markets and GDP.

Keywords: *Financial Market, Economy, Economic Growth.*

I. INTRODUCTION

Financial markets play an important role in the creation of capital and the production of goods and services. In many developing countries, limited financial markets, equipment and financial institutions, as well as weak legal systems can lead to more capital and availability. They also help develop international financial markets between countries. The financial institution and the capital market are considered as the main components of the financial sector. This study considers the impact in the context of a fast-growing economy such as India, which has adopted and continues to undertake many reforms to strengthen the role of finance in economic development and better governance, thereby increasing trade.

Financial Markets include any place or system that provides buyers and sellers the means to trade financial instruments, including bonds, equities, the various international currencies, and derivatives. Financial markets facilitate the interaction between those who need capital with those who have capital to invest.

An economy is an area of the production, distribution and trade, as well as consumption of goods and services. In general, it is defined as a social domain that emphasize the practices, discourses, and material expressions associated with the production, use, and management of scarce resources.

Financial development can be characterized as the increment or change within the inflation-adjusted showcase esteem of the products and administrations created by an economy in a money related year. Analysts expectedly degree such development as the % rate of increment within the genuine net household item, or genuine GDP.

➢ *Indian Financial System*

The monetary framework is conceivably the foremost vital regulation and utilitarian vehicle for economic transformation. Fund could be a bridge between the show and the long run and whether the mobilization of reserve funds or their productive, compelling and impartial allotment for venture, it the get to with which the budgetary framework performs its capacities that sets the pace for the accomplishment of broader national goals.

➢ *Features of Financial System:*

- The financial system promotes savings and investment by providing the best possible link between savers and investors.
- The financial system ensures that the financial market expands and is long-term.
- Financial systems facilitate the allocation of financial resources to meet social and economic needs.
- The financial system affects the quality and speed of economic development.
- Divide them among other uses and users.
- Encouraging savings.

➢ *Structure and Function of Indian Financial System:*

Financial System is a set of institutional arrangements through which financial surpluses in the economy are mobilised from surplus units and transferred to deficit spenders. Corporate planning includes all the terms and procedures governing the production, distribution, exchange and holding of various financial instruments or assets, as well as business finance and the methods of incorporation and operation. Therefore, the financial system has three main features:

- Financial Assets,
- Financial Markets, and
- Financial Institutions.

II. REVIEW OF LITERATURE

The research on "ROLE OF FINANCIAL MARKET IN ECONOMIC GROWTH OF INDIA" by Dr. Devendra Jarwal, Assistant Professor, Motilal Nehru College, and University of Delhi concluded that the financial market plays an important role in promoting economic growth of India. By mobilizing savings for productive investment and facilitating capital inflows, it stimulates investment in both physical and human capital. The financial market also channels savings to more productive uses by collecting and analyzing information about investment opportunities. Thus, by creating an efficient mechanism for transactions in long term financial instruments, it provides a wide range of wealth creating opportunities for the Government, Corporations, Private individuals and other financial institutions. However, to overcome obstacles we need some strong measures by formulating investor friendly policies and environment, stability in stock market to gain investors' confidence and by making international standards for banking system.

In the early 1990s, several theoretical models provided contradictory conclusions on the relevance of the financial intermediaries for promoting long-run growth (Greenwood & Jovanovic, 1990 Saint-Paul, 1992). Prior to this there had already been discussions on whether stock markets and banks act as substitutes or complements of each other (see, Boyd & Prescott1986Stiglitz, 1985). This led to a series of empirical analyses trying to explore the contribution of capital markets and banks to the economic growth. These studies were based on panel data for a large number of countries and the results have been rather mixed. Few studies provide evidence that both stock markets and financial sector have strong influence on economic growth as provided in a detailed discussion in Chakrabarty 2013 on this issue. The nature of the sample, whether it is for developed or developing countries as well as whether it is a time-series data or panel data seems to also influence the empirical findings. In some instances, the results were in favour of unidirectional causality between financial sector and economic growth (Christopoulos & Tsionas, 2004), while in others like Apergis, Filippidis, and Economidou 2007 there was bidirectional causality between financial depth and economic growth.

The research on "Role of Financial Market in India" BY Anil Kumar, Associate Professor in Economics Department of Higher Education, Himachal Pradesh, India. The objective of his paper was to show the linkage between stock market, non-agricultural credit market, and non-agricultural GDP. In other words, he attempted to understand how these variables have contributed toward the growth of an economy in relation to the financial market. He concludes that there is a long-run relationship between financial market and gross domestic product, while the latter is also affected in the long run by changes in credit market.

III. RESEARCH METHODOLOGY

- **Research Design:** Research design is a blueprint of a scientific study. It includes research methodologies, tools, and techniques to conduct the research. It helps to identify and address the problem that may rise during the process of research and analysis. There are many types of research design. Descriptive research design is used in this research.
- **Descriptive study**: A Descriptive Design seeks to describe the current status of a variable or phenomenon. The researcher does not begin with a hypothesis, but typically develops one after the data is collected. Data collection is mostly observational in nature.
- **Data Collection Source**: The study was conducted with secondary data which was collected from various websites, books, government sites, etc.
- **Methods of Data Collection**: Secondary data was collected from various websites, books, government sites, etc. based on the objectives and the variables that affect the study. The data collected consists of various types of data like about financial markets, economy, economic growth and GDP from various sites, like Wikipedia, Investopedia, etc.

➢ *Objective of the Research:*

- To study relation between financial market and Indian economy.
- To study how financial market impact Indian economy.

➢ *Significance of the Study:*

The significance of the study is to find the opportunities and ways to utilise the financial market to increase the economic growth of India. As there is a huge scope for development in Indian economy and financial market has quite a impact on it, which should be utilised in order to gain increased economic growth.

IV. DATA COLLECTION AND ANALYSIS:

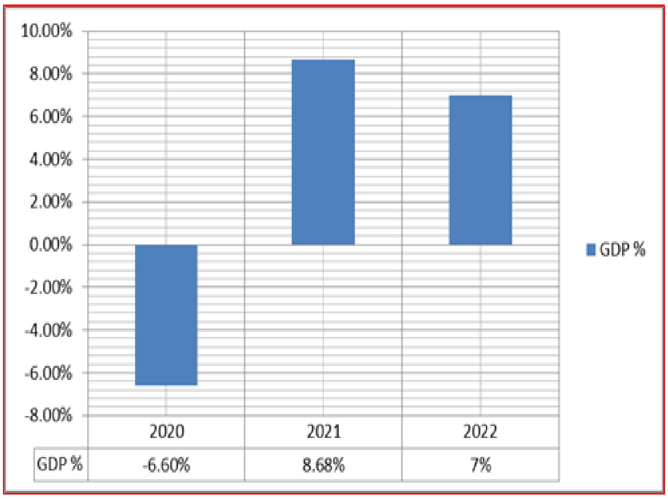
The economic growth of a country is measured by the real GDP which is driven by spending and investment. GDP is typically shown as a percentage growth rate from one period to another. The financial market have impact on the GDP of India as, when there is a bull market, consumers and companies have more wealth and confidence leading to more spending and higher GDP. Hence the economic growth which is measured by real GDP increases. During bull market, if a company issue new shares then they can get funds as there is healthy demand for equities and they can use these funds to invest in new projects which in turn will increase job opportunities, hence will increase GDP percentage and in bear market consumers and companies have less wealth and optimism leading to less spending and lower GDP. Hence the economic growth decreases.

In a bear market, investors rush to sell stocks to prevent losses on their investments. Typically, those losses lead to a pullback in consumer spending, particularly if there's also the fear of a recession. A recession is often defined by two consecutive quarters of negative—or contracting—GDP growth. Once consumers begin to pull back spending, it can hurt the sales and revenues of companies. Companies, in turn, are forced to cut costs and workers. The fall in consumer spending is exacerbated by an increase in unemployment and further uncertainty about the future. Also, businesses might find it difficult to find new sources of financing and with less revenue coming in, existing debt can become more challenging to manage.

All of these factors lead to a drop in consumer and business confidence, which translates to less investment in the stock market. The contracting spending and investment due to lower confidence ultimately have a negative impact on GDP.

Year	Type of Market
2020	Bear Market due to COVID pandemic
2021	Market recovered after COVID
2022	Bear market started from 3 Jan 2022 and continued

The GDP of India in 2021 was 8.68%, a 15.28% increase from 2020. In 2020 there was a bear market in financial market due to COVID pandemic and GDP was negative 6.60%. The bear market started at 3 Jan 2022 and still going on. And GDP for 2022-23 is projected at 7%.



Hence from here we can see that financial market has quite an impact on the economic growth of India.

➢ *Relationship Between Financial System and Economic Development:*

The development of a country depends on the economic growth of that country over time. Economic growth includes investment and production as well as the country's international product. But when this development leads to human development in the form of improved living conditions, that is, economic growth.

➢ *Role of Financial System in Economic Development of a Country:*

The following are the roles of financial system in the economic development of a country.

- **Savings-investment relationship:** A country needs a lot of investment and production to achieve economic success. This can happen if there are savings points. These savings are converted into productive resources in the form of capital. The role of financial institutions is important here because they encourage people to save by offering attractive interest rates. These savings are channeled into various business areas, including production and distribution, through loans.
- **Financial systems help in growth of capital market:** Any business requires two types of capital namely, fixed capital and working capital. Fixed capital is used for investment in fixed assets, like plant and machinery. While working capital is used for the day-to-day running of business. It is also used for purchase of raw materials and converting them into finished products.
- **Government Securities market:** The monetary system allows state and central governments to raise money for the short and long term by issuing bonds and bonds at attractive interest rates and tax benefits. The budget deficit can only be filled with the help of government bonds. Thus, capital markets, financial markets, foreign exchange and government securities markets enable investors, businessmen and governments to meet their credit needs. In this way, economic development is guaranteed by the financial system.
- **Financial system helps in Infrastructure and Growth:** The economic development of a country depends on the infrastructure available in that country. Without important industries such as coal, electricity and gas, the development of other industries would be limited. This is where financial services play an important role in using funds to improve business infrastructure. The private sector will have a hard time raising the large capital needed to build business infrastructure. For a long time the infrastructure industry was only started by the Indian government. But now, with the policy of economic liberalization, many private companies have stepped forward to start the infrastructure business. Development and commercial banking provides financing for these businesses.
- **Financial system helps in development of Trade:** The financial system facilitates domestic and foreign trade. Financial institutions provide money to traders and financial markets help reduce financial instruments like fees. One-time transportation and post-shipment financing from commercial banks increased foreign trade. They also issue a letter of credit to the supplier. Thus, thanks to the financial system, the country earns foreign currency. The best part of the financial system is that the seller or the buyer does not meet and the information is discussed by the bank. In this way, the financial system helps many banks, not just traders. A part of the production is sold in domestic and foreign markets with payment. Because of all these, the development of the country is faster.
- **Employment Growth is boosted by financial system:** The existence of financial systems will create more employment in the country. Business finance, which is part of the financial system, increases production and more business by providing working capital to traders and manufacturers. As competition increases across the industry, business services such as sales, marketing and advertising increase, resulting in more business being done.
- **Financial system ensures balanced growth:** Economic growth requires balanced growth, that is, simultaneous growth in all sectors. Adequate funds are required for the development of primary industry, secondary industry and tertiary industry. Authorities will reform the country's financial system to distribute available funds across all areas, which will strike a balance between trade, agriculture and services.

ISSN No:-2456-2165

- **Financial system's role in balanced regional development:** Through the financial system, backward areas could be developed by providing various concessions or sops.

V. DISCUSSIONS / FINDINGS

In this research we discussed about what financial market is, what we understand by economy and economic growth, also the impact of financial market on Indian economy. Aft

er this research we found out that financial markets have quite an impact on the economic growth of India. By studying impact of financial market on GDP of India we can see that financial markets play an important role in economic growth.

VI. SUGGESTIONS

- According to us awareness about the investment in financial markets should be increased.
- Government and other authorities should help in making investing in financial market safe, secure and easier to access, so one can confidently invest and utilise opportunities provided by financial markets.
- Should increase cyber security to reduce loss due to criminal activities.

VII. CONCLUSION

After conducting this research we reached the conclusion that financial markets has quite an impact on economic growth of India. Indian government invests a lot of money in financial markets and get good returns on it, which plays an important role in economic growth of the country. Increasing the awareness about investment in financial markets with the necessary precautions will help in increasing economic growth of India.

The financial system plays an important role in the economic development of the country. To thrive, the financial sector offers three performance indicators: distribution efficiency, good performance data, and good performance. Financial institutions are the most profitable businesses that benefit from access to funds lower than their capital gains.

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