CHAPTER II

RATE TRENDS OF PRINCIPAL MONEY MARKET INSTRUMENTS

RESEARCH METHODOLOGY

This Chapter sets the specific objectives for the current researcher which form the necessary base for the research to be carried out and discusses the procedural aspects on how the research is to be carried out and sets the Hypothesis, on which the present thesis is based, and finally various possible limitations of the study.
RESEARCH METHODOLOGY

2.1 NEED FOR THE STUDY

There is no gainsaying the fact that money markets have been the principal catalysts of local, national as well as international trade. It is, then, a natural corollary that the performance and progress of business hinges heavily upon the performance and progress of the money markets. Keeping with the changing times and the shifting needs in the business environment, the money markets have undergone a great deal of metamorphosis over the years. However, the critical question inevitably remains stay put: Do the money markets in effect justify their raison d'être? Perhaps, the question is more relevant and calls for an urgent answer as the business environment across the world is exposed to extremely turbid times in the wake of the globalization process. As such, the present study assumes particular relevance and special significance. The study is aimed at taking stock of the obtaining scenario of the Indian Money Market and ascertaining whether the various instruments that are integral to the Money Market effectively fulfil the purpose and role they are assigned. The study is also aimed at probing the Indian Money Market for possible deficiencies and defects with a view to figure out the plausible ways gearing them up to the needs and demands of the current times.
2.2 OBJECTIVES OF THE STUDY

The specific objectives of the present study comprise:

- To trace the genesis and the process of the evolution of the Indian Money Market;
- To study the guiding principles and governmental policies that have impacted and shaped the Indian Money Market over the years;
- To appraise the operational procedures and functional processes of the various Instruments of Indian Money Market;
- To find out the perceptions and preferences of the user-segments concerning the diverse money market instruments;
- To ascertain the assessment and viewpoint of the issuer-groups concerning the utility and performance of the Indian Money Market;
- To evaluate the relative performance of the different instruments in terms of established/defined parameters; and
- To find possible deficiencies and defects, if any, relating to the instruments and put forward plausible ways to improve on their usefulness.
2.3 HYPOTHESES OF THE STUDY

**Null Hypothesis** $H_{01}$: There is no significant association between nationalized and private/foreign banks in terms of their preferences across all the money market instruments.

**Null Hypothesis** $H_{02}$: There is no significant association between the nationalized and private/foreign banks and the purposes for which they borrow from call/notice money market.

**Null Hypothesis** $H_{03}$: There is no significance association between the nationalized and private/foreign banks in terms of their participation in Liquidity Adjustment Facility and all the banks invariably participate in LAF irrespective of their constitution.

**Null Hypothesis** $H_{04}$: There is no significant association between the nationalized and private/foreign banks in terms of the nature of their customers for bills discounting and all the banks prefer to discount the bills of their corporate customers as a first option.

**Null Hypothesis** $H_{05}$: There is no significant association between the nationalized and private/foreign banks and their subscription habits of certificates of deposits and all the banks will have equal preferences in issuing certificates of deposits irrespective of their constitution.
Null Hypothesis $H_{06}$: There is no significant association between the own funds and the borrowings from banks for the corporates.

Null Hypothesis $H_{07}$: There is no significant association between Commercial Paper and Commercial Bills Discounting and both the instruments are independent in their functioning.

2.4 RESEARCH PROCEDURE

The research methodology employed for the current study was an 'exploratory study', through the instrument of Interview Schedule and involving simple random sampling method. An Interview Schedule was designed to obtain information along the lines of the set objectives of the study and administered to the selected respondents after being duly pilot-tested. A sample of 50 respondents - comprising professionals from top-echelons drawn from premier financial institutions, financial intermediaries and reputed corporate houses - was chosen to represent the universe of issuer-groups as well as user-segments of the Indian Money Market. The scope of the study was confined to the evaluation of the perceived purposefulness and effectiveness of the principal instruments of Money Market – Call/Notice Money Market, Repo/LAF, Commercial Paper, Certificates of Deposit and Commercial Bills Discounting - in terms of established / well-defined functional as well as utilitarian parameters. The other and relatively minor instruments, though very much an integral part of the Indian Money Market, do
not fall a part of the current study. The exclusion of such instruments from the purview of the present study was forced to lack of an organized nature and structure of such instruments along with the fact even together their impact on the whole Money Market is significantly inconsequential.

2.5 LIMITATIONS OF THE STUDY

The various possible limitations of the present study include the following:

Despite the fact that a comprehensive classification of the respondents has been done on the basis of different players in the money market, who are directly or indirectly associated with it, it is quite possible that certain groups with insignificant stature are unwillingly ignored by the study.

It should also be cautioned that the study takes into account only certain principal money market instruments and leaves out the other inconsequential instruments from the purview of the study inadvertently.

Despite the above limitations, it is, however, to be stated that the present study is quite significant in as much as it helps explore the possible lacunae in the functioning of the Indian Money market, the rectification of which could yield promising results for the economy of the country.