1 Types of Market and Information Technology

: *Syllabus* :

Market – Types of market – Organized maekets and unorganized markets – Meaning, definition, characteristics, types and functions – Difference between organized and unorganized markets. Information Technology : Meaning, definition, characteristics, types, functions, impact of information technology on markets

Weightage : Chapter - 1, 2 & 3 = 25%

[1] Introduction :

These are the days of economic liberalisation. Economic liberalisation means adoption of market forces oriented economic system. In this new economic order markets in general and organised markets in particular are expected to play an important role in determining prices, production and distribution system.

Before we examine the impact of Information Technology on the organised market, it will be instructive to understand the concepts of a market, types of market and characteristics and functions of market.

[2] Market - Definition :

Market refers to a place, region or whole nation which brings directly or indirectly the seller and the buyer in contact with each other for bargaining or negotiating the price freely and in a competitive condition for the exchange of goods.

[3] Organised Market :

[3.1] Definition :

Organised market means a specific place where members carry out purchase and sale transactions according to written rules and regulations and established conventions and procedures.

As per above definition an organised market refers to a place where authorised members carry out purchase and sales transactions according to certain written or conventionally established norms and procedures. In such markets, place is certain, time of trading is also certain and the procedure of buying and selling and settlement of transactions is also certain. By this definition we can say that stock exchanges, commodity exchanges and regulated markets are the organised markets because they function as per certain rules and regulations.

In this age of information technology and online trading place is not important. Trading members of the organised market can trade from any place in the country with the facility of V-sat terminal and their clients can place order on mobile phone from any where. However observance of rules and regulations is important. (V scot) For regulated markets, place is important even today.

[3.2] Characteristics of an Organised Market :

Any type of organised market possesses the following characteristics :

1. **Place is fixed :** Place of an organised market is fixed. All the transactions are carried out at that specific place. e.g., Jeejeebhoy Tower is the original place of Bombay stock exchange. In the same way all the regulated markets are located at fixed places.

2. **Transactions by members :** In organised markets only the members are permitted to sell and purchase. Non members can do so through the members. In stock exchange and commodity exchanges brokers are the members of the market. In regulated market commission agents are there.
3. **Transactions As per established rules and regulations :** Each market is having its rules and regulations. Members while trading have to comply with written and conventional rules and regulations. Such rules and regulations pertain to the quantity to be purchased, delivery of goods, settlement of accounts, bidding of the price etc. Such rules are laid down in the bye laws of the specific market.
4. **Regulation of trading activities :** Trading in organised market is regulated by the Board of Directors of the market or by the executive committee. In case of need it can be regulated by external agency like Forward Market Commission for commodity exchanges and SEBI for stock exchanges.
5. **Facilities for trading :** For trading, certain facilities are needed like office, online trading facility, price dissemination facility, telephone, clearing house etc. These facilities are provided by the market to the members.
6. **Provides needed information :** In case of commodity exchange information regarding demand and supply is highly essential. In case of stock exchange information regarding the working of the different listed companies is very important. Market provides such needed information to the members.
7. **Arbitration for the settlement of dispute :** A provision of arbitration is made for the settlement of any dispute regarding price, quantity, grade, delivery etc.
8. **Management by Board of Directors :** It is managed by the Board of Directors. One full time managing director is looking after day-today affairs of the market.
9. **Non commercial Institution :** Organised market is in the form of a company or voluntary association. It is non-commercial in the sense it has not come into existence for earning profit. It does not purchase and sell for itself. It simply provides facility to the members. Therefore, its objective is non commercial.

[3.3] Difference Between Organised and Unorganised Markets :

Main points of difference between the ogranised market and unorganised market are as under :

Organised Market	Unorganised Market
1. It is established for a specific commodity possessing certain characteristics.	1. It is meant for any kind of commodity.
2. Trading place is certain.	2. Trading place is not certain. At any place any commodity or product is traded.
3. It functions as per laid down rules and regulations.	3. No rules and regulations are prescribed.
4. Only the members (brokers) of the market can sell and purchase.	4. Any one can sell and purchase.
5. Facilities like office, telephone, price board, trading ring etc. are provided to the members by the market.	5. Such facilities are not provided by the market to the traders.
6. It is managed by the Board of Directors.	6. There is no such Board of Directors.
7. Sale and purchase can be made in prescribed minimum quantity or in multiple thereof.	7. There is no minimum quantity prescribed for sale & purchase.
8. Sometimes restrictions are imposed on buying & selling to control speculation.	8. No such restrictions are imposed on buying and selling.
9. There is a provision of arbitration for the settlement of disputes.	9. There is no provision of arbitration.
10. Forward contracts are permitted.	10. Forward contracts are not permitted.
11. Transactions are settled through clearing house.	11. Clearing house facility is not available.
12. Information regarding demand & supply positions is provided to the members.	12. Such facility is not provided to any one.
13. It is the barometer of the demand and supply position in the economy.	13. It does not serve as baromter of demand and supply position.
14. It comes into existence as a legal entity.	14. It is not a legal entity.

[3.4] *Functions and Services of an Organised Market :*

Different functions and services of an organised market can be described as under :

(1) Provides Place for Trading :

Organised markets are in the form of public limited companies registered under the Companies Act of 1956 or in the form of voluntary association or regulated market. Each market has got its registered office and jurisdiction of trading activities. Within its jurisdiction it provides a place to the members for trading. It pvovides a trading ring for buying and selling where online trading facility is not available. However, wherever online trading facility is available, place or trading ring loses its importance. Members of the organised market can trade from any where with the help of V-sat terminal.

(2) Regulation of Business Activities :

Speculative activities are the important activities of any organised market. But excessive speculative activities prove hazardous for the smooth running of the business. Moreover, members are expected to possess very high standards of business ethics, values and honesty. Prevention of excessive speculative activities and fostering of high standards of business ethics, values and honesty requires regulation of the members and their activities. Therefore, regulation or control over trading activities of the market is an important function of the market authorities.

(3) Provides Facility of Arbitration :

The market provides arbitration facility for resolving any dispute regarding price, grade or quantity or any other dispute. Because of arbitration, disputes are resolved without delay and cost of litigation.

(4) Provides Information :

For trading purpose members require information of current price quotations, trading volume and also regarding world supply and demand position. Organised market collects such information and provides to the members. Members base their purchase or sell decision on such information. It is helpful to the non members also. Therefore, such information is published daily in the news papers. Where online facility is not provided, price boards are used to display the information in the trading ring, in case of on line trading it is provided on the screen of the computer and TV channels.

(5) Provides Continuous Market :

In organised commodity markets there are two types of traders. Those who hoard the stock for production purpose or for supply during the year and those who expect to earn profit from price fluctuations.The first category consists of manufacturers and stockist. But they run the risk of price fluctuations. To get protection against price fluctuations they carry out hedging transactions. The other category consists of speculators who provide counterpart to the hedgers. Hedgers and speculators provide continuous market. They are everready for buying and selling which provides continuity to the market.

(6) Provides Facility for Trading :

Trading in organised market requires certain facilities like broker's office, telephone, trading ring or online trading facilities, price board displaying market quotations, grading facility, arbitration facility, clearing house and banking facility etc. The organised market provides such facilities to its members.

(7) Contributes to the Development of Trade and Commerce :

The organised market is non commercial institution. However it reflects the real price of the commodity traded in it. Price reflects the demand and supply position of the commodity. Shortage of commodity causes rise in price and higher price encourages the producers to produce more. And more production leads to development of trade and commerce. It encourages development of banking services, brokerage services and services of middlemen also.

(8) Maintenance and Promotion of Business Ethics and Values :

In the organised market members or brokers are expected to maintain, promote and practice very high standards of business ethics, values and honesty. They have to win the trust and confidence of the non members who buy and sell in the market through the member brokers. This is possible only when brokers possess high standards of business ethics and values and comply with the rules and regulations of the market. Therefore, market authorities try to see that very high standards of business ethics and values are maintained by the member brokers.

[3.5] Types of Organised Markets :

In a free market economy we find several types of organised markets. We can classify them into the following broad categories :

Types of Organised Markets

- Commodity Markets
  - Agricultural Produce Markets
    - Forward Markets
    - Regulated Markets
    - Co-op. marketting Societies
  - Industrial Products Markets
  - Bullion Markets
- Financial Markets
  - Money Market
  - Stock Market
  - Foreign Exchange Market

From the above chart it becomes very clear that all types of orga-nised markets can be classified into two basic categories as under :

(A) Commodity Markets

(B) Financial Markets

(A) Commodity Markets :

Commodity markets again indicate a broad category which includes agricultural produce markets, industrial products markets and bullion markets.

(1) Agricultural Produce Markets :

The organised agricultural produce markets include different types of produce markets like cotton market, jute market, oil and oil seeds markets, turmeric market, cardamom market, pepper market, castor seeds and oil markets etc. There are some multi commodity markets also. Agricultural produce markets can again be subdivided into the following three categories :

(a) Forward Markets : Forward markets are the organised markets in which spot delivery contracts and forward contracts are made between the seller and the buyer. It functions according to certain written and established rules and regulations and conventions.

(b) Regulated Markets : Regulated markets have been established by the different states under the Agricultural Produce Markets Acts of different states. In Gujarat also many regulated markets have been established under the Gujarat Agricultural Produce Markets Act of 1963. Their main objective is to prevent exploitation of farmers by the middlemen and secure fair ...

to them. Regulated markets are managed by the market committee and function as per bye laws of the market and legal provisions laid down in the Act. The market provides different facilities like market yard, banking and transport facility, office buildings and godown facility etc. The middlemen working in the regulated markets are known as commission agents. Prices of agricultural produce are determined by the competitive bidding method which assures fair price to the farmers.

(c) **Co-operative Marketing :** For certain agricultural commodities co-operative marketing societies have been formed. Their main objectives are to promote the economic interest of the members, assure reasonable prices through co-operative marketing, provide protection against economic exploitation of farmers by the middlemen and develop the spirit of co-operation. Gujcomasol, Grofed, Maharastra state co-op. cotton growers marketing federation, Gujarat co-op. milk marketing federation etc. are some of the examples of co-operative marketing.

(2) Industrial Products Markets :

There are certain markets for industrial products also. Such markets include coffee market, Rubber market, oil markets, coconut oil market etc. These are the markets of products manufactured in the factory.

(3) Bullion Markets :

Bullion markets include silver and gold markets. They are located in the important cities of the world. They are also organised markets because purchase and sale transactions are made by the brokers as per laid down rules and regulations. Their transactions include spot and forward contracts, Mumbai bullion market, London bullion market, New York bullion market etc. are the examples of bullion markets.

(B) Financial Markets :

Like commodity markets there are certain financial markets also. Financial markets are the markets of financial instruments. They include the following three types of markets.

(1) Money Market :

Money market is the financial market in which funds are lent and borrowed for a short period of time. Short period means from one day to one year. Instruments used for lending and borrowing are Repos, Treasury Bills, Bills of exchange, commercial papers, certificate of deposits and money at call and short notice. Rate of interest in the money market is determined by the law of demand

and supply of short term funds. Main participants of the money market are the central bank, commercial banks, merchant banks, State co-op. banks, financial institutions, exchange banks, public limited companies, discount and finance houses etc. Money market is the best medium for the management of liquidity at the micro and macro level. In India Reserve Bank of India exercises control over money market.

Money market can further be divided into sub markets like money at call and short notice market, Repos market, Treasury Bills market, discount market, commercial paper market etc.

(2) Stock Market :

Share market is also known as stock exchange or securities market. It is the market for trading securities which are used for raising long term funds for companies or corporations, like shares, bonds etc. Stock market can also be subdivided into different segments like primary market, secondary market and derivatives market :

(a) **Primary Market :** Primary market is the market in which shares and bonds are initially sold by the companies to the investors. Primary segment of the securities market consists of shares or bonds issuing companies, underwriters, brokers, merchant bankers and initial investors. Generally for raising long term capital primary market is used.

(b) **Secondary Market :** It is also known as stock market or share market. It is the market in which industrial securities are traded. Initial investors, when they need fund, they sell out their securities in the stock market. Those who desire to invest their surplus funds or desire to make profit out of price fluctuations purchase the securities from the secondary market. In short, secondary market is the market for trading securities. National Stock Exchange, Bombay Stock Exchange, Ahmedabad stock Exchange etc. are the examples of secondary markets. Secondary markets, by providing a continuous market for the sale and purchase of securities, provide liquidity and transferability to the securities. As a result any one can sell and purchase securities from the secondary market. Because of the liquidity of securities endowed by the secondary market investors invest their surplus funds in securities and companies are able to raise long term capital. In this way secondary markets give their valuable contribution in industrial and economic development of the country.

(c) **Derivative Market :** The third segment of the stock market is the derivative market. As it is derived from the secondary market, it is known as derivative market. It is the market of derivatives. A derivative is the financial instrument the value of which is determined on the basis of the value of underlying securities. Stock options, stock futures, index options and index futures are the derivative instruments. These instruments are used for getting protection against the risk of price fluctuations in the secondary market. In other words derivatives are used for hedging purpose by the investors and for earning profit by speculators.

(3) Foreign Exchange Market :

The market in which foreign currencies are traded is known as foreign exchange market. The exchange rate between two currencies is determined by the law of demand and supply of a particular currency. When a particular currency is in short supply exchange rate in terms of local currency increases and vice a versa. In foreign exchange market also two types of contracts are entered into by the dealers. One is spot delivery contracts and the other is forward contracts. This market is regulated by the Reserve Bank of India and the Foreign Exchange Management Act (FEMA).

[4] Information Technology :

In any type of organised market, trading is done by its members or authorised agents. For making profitable purchase and sales decisions they need certain information. This information should be latest. But the marketing environment is constantly changing. Not only that but certain world affairs also affect the market. It means a continuous flow of information is essential for traders. Here also 80/20 principle applies. It means 80 p.c. of the information required is available from the internal sources and for 20 p.c. one has to depend on external sources. For collecting information from the internal sources intranet is created and for external information extranet is used.

[4.1] Definition and Meaning :

Information technology is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics based combination of computing and telecommunications.

The term was for the first time used by Leavitt and Whisler in their article published in Harvard Business Review in 1958.

From the above definition it is very clear that Information Technology (IT) is concerned with acquisition of vocal, pictorial, textual and numerical data as input, processing the input data by the central processing unit of computer, producing information for use in required form like percentage, average, graph, chart, multiplication, division etc., storing the information in the memory of computer and disseminating the real time information to those who need it. Buyers and sellers of commodities, investors and trading members of commodity exchanges and stock exchanges need such real time information for decision making. Market regulator also need real time information for regulating market activities. Needed information is supplied by different means of communication like telecommunication, mobile, internet, email, fax, tv channels etc. Information technology is thus based on microelectronics computing and telecommunication.

[4.2] Characteristics :

On the basis of definition of IT we can summarise its main characteristics as under :

1. **Combination of microelectronics computing and telecommunication :** In IT two things are very important, one is production of meaningful information by processing input data in the computer. And the other is the communication of information produced to those who need it by satellite communication like telephone, mobile, internet, email, fax, tv channels etc.
2. **Rule of 80 : 20 is applicable :** For the production of meaningful information input data are needed. As it happens in other cases about 80 p.c. of the input data required are available from the internal sources. And for their acquisition intranet system is created. For about 20 p.c. of the input data one has to rely on external sources and for their acquistion extranet is used. i.e. inter connection with other markets.
3. **Creation of management information system is essential :** For the acquistion of input data as raw material and dissemination of produced meaningful information it is essential to create management information systems like centralised EDP unit, local area network (LAN), intranet, wide area network (WAN), extranet etc.
4. **Use of means of communication :** It involves the use of means of communication like satellite based telecommunication, mobile, email, fax, TV channels etc. for disseminating the information.

5. **Form of Information :** The information produced and disseminated may be in the form of current market price, p.c. of rise or decline in price, volume of trade. average price of the week or month, graph showing the trend of the price, sensitive index, p.c. of rise or fall of index, demand and supply position of a commodity, prices of different commodity exchanges etc.
6. **Storage :** Information produced and disseminated is stored for future use. It is stored in the computer memory or in C.D.
7. **Establishment of communication net work is essential :** For the acquisition of regular input data and spread of information establishment of communication net work like telephone number, email address, internet connection, website number etc. is essential. From 1st April, 2011 SEBI has made it compulsory for the listed companies to have their website number and furnish in it information essential for investment decision and update it daily.
8. **Real Time Information :** Traders in commodities and securities need real time information for making buying and selling decisions. The information that we observe on business TV channels is real time information about the prices and trading volumes of commodity and stock exchanges.
9. **Provides useful information :** Information provided by IT is useful to the traders of commodities and securities, investors, market authorities, regulator and government for decision making and market regulation. It is useful for producers, speculators and farmers too.

[4.3] Types of Information Technology :

There are two types of information technology - one is analog technology and the other is digital technology :

(a) **Analog Technology :** This is an old technology which has now become obsolete. Lack of clarity of voice, noise in communication, dim pictures in tv, ghost like human figures in tv etc. were the drawbacks of analog information technology.

(b) **Digital Technology :** The old analog technology has been replaced by the modern digital technology. Clarity of voice and pictures and figures, absence of noise in communication and clear communication even between distant places are the benefits of digital information technology. Messages, documents, photographs and text can be quickly and clearly communicated with the help of digital technology.

[4.4] Functions of Information Technology :

In the context of organised markets IT performs the following functions :

1. **Acquistion of input data :** Transactions at a particular price and quantity of transaction generate input data. IT collects input data on line and supplies to the centralised computer system for processing. Computers of individual trading members are connected with the centralised main master computer system. Such linkages makes the collection of input data easy. For collecting information from internal sources intranet system is created and for external information extranet is used.
2. **Processing of input data :** Input data generated by the market operations does not speak any thing about the market conditions. They are processed by the CPU of the computer as per set programme and meaningful information is produced in the form of percentage, average, trend chart, growth rate, comparisons etc. As a result, we can understand percentage rise or fall in prices, index and volume of trade. It gives comparative pictures also. Such information is useful for decision making.
3. **Dissemination of information :** The meaningful information produced is disseminated to the trading members on their V-sat terminal. Trading members inform their clients and clients on the basis of available information decide what to sell or buy or remain away from the market. The information is telecast on TV business channels for those who are interested in the information.
4. **Storage function :** The input data and information produced are stored in the memory section of the computer or on CD for future use.
5. **Provides planning premises :** Information about stock exchanges help the industrial units in taking planning decisions as to when to plan for expansion, when to issue the capital, which means should be used for raising the capital. Booming condition in the stock market provides ground for planning expansion and raising needed fund by the issue of equity shares. In the depressed condition of the market debt capital is prefered. Information of commodity exchange help the industrial units in planning acquistion of raw materials and to farmers for planning as to which crop to grow.

6. **Provides information for controlling :** Speculators play an important role both in stock exchange and commodity exchange, But excessive speculation becomes destructive for the market. Therefore, speculation needs controlling. On the basis of market information regulators judge the intensity of speculation and if found necessary takes steps to control excessive speculation.

7. **Maintains price parity between markets :** Prices information of different markets induces the speculators to go for arbitrage transactions. Observing the price differentiation they start purchasing in low price market and selling in higher price market which maintains price parity between markets.

8. **Integrates world markets :** Information technology has made the world a global village. It has brought the markets closer to each other. As a result prices on Nasdaq and Dow Jones affect the stock prices of Bombay stock exchange and metal prices of London Metal Exchange affect the metal prices of MCEX in India. Information about global demand and supply aff ect all the world markets. It means IT has established integration between world markets.

9. **Helps investors and speculators to make matured decisions :** Both speculators and investors are motivated by profit objectives. Continuous flow of information guides the speculators and investors as to when to purchase and when to buy for the realisation of their objective.

10. **Provides Social Service :** A number of marriage bureaus have come into existence. Information technology helps the candidates to search out the matching candidate from the websites of marriage bureaus and exchange biodata and photographs any where in the world.

The points discussed above highlight the impartance of IT in the modern organised markets.

[5] Impact of Information Technology on Organised Markets :

The information technology has changed the whole scenario of organised markets. Its impact can be described under different heads as under :

(1) OnLine Trading Made Possible :

Before the advent of IT, members or brokers were expected to remain present in the market for trading. But, now because of the development of IT, on line trading has been made possible. In on line trading system the organised market is having its centralised

computer system. Each broker is also having a computer system known as V-sat terminal. Members' computer is connected with the centralised computer system of the market. There is interconnectivity between the computers of brokers also. When the market starts functioning at 9-00 a.m. prices are quoted which are transmitted to brokers' computers. Brokers know the prices on the screen of their computer. On that basis they take the decision to purchase or sale. If they want to purchase they can immediately book the order with the broker whose quotations are the lowest. Order is placed not by post but on computer. There is immediate confirmation of order also. When transaction takes place it is recorded in the centralised computer system of the market. At the end of the day the centralised computer system gives the net position of each member. Online trading has been introduced in BSE, NSE and also in Ahmedabad multi commodity exchange. It is planned to cover more and more markets under online trading system. Non members can purchase and sell through members (brokers).

(2) Market Place has Lost its Importance :

Before the advent of IT trading was done at a specific place of the market. But IT has rendered the market place unimportant. Now trading can be done from any place in the country. e.g. BSE has got its registered office in Mumbai. But a broker having his office in Chennai can purchase and sell on BSE. The condition is that he should have V-sat terminal. This is made possible because IT has made it possible to send the market information even at distant places. By knowing the prices continuously quoted on the market, the brokers can purchase and sell from any place during the working hours. In this way the market place has lost its importance because of information technology.

(3) Increase in the Trading Volume :

Online trading has made it possible for members and non members to purchase and sell several times during the day at a price profitable to them. e.g. one member purchases Tisco at 11-00 o' clock at a price of Rs. 400. At 11-15 prices rise to Rs. 410. He may sell out and earn the profit. If price declines to Rs. 395 even then he may sell out to save himself from a big loss. In this way IT has facilitated purchasing and selling several times. As a result volume of trading has increased. And more volume means increased liquidity of shares or commodity.

(4) Reduction in Time Energy and Cost :

IT has facilitated online trading and in online trading transactions are carried out quickly. There is no need to send the order by post and wait for confirmation. Therefore time, money and energy are saved by using IT.

(5) Parity of Prices by Arbitrage :

Arbitrage has been made easy by IT. Arbitrage means purchasing in a market with lower price and selling in a market of higher price. e.g. The price of Tata Power is Rs. 300 in BSE but in NSE it is quoted at Rs. 320. Therefore, brokers may purchase in BSE and sell in NSE at higher price. Demand in BSE will increase and in NSE supply will increase. Ultimately prices tend to be equal in different markets because of arbitrage. And arbitrage is made possible by IT by providing price information of each market very quickly.

(6) Elimination of the Role of Middlemen :

Use of internet establishes connectivity between seller and consumer directly. There is no need of middlemen in industrial markets. Of course internet cannot be used for all the products. In organised market only one middleman known as broker is there. He is a member of the market also. Therefore, IT cannot eliminate his role at present.

(7) Effective Control :

For effective control over market information regarding prices, market trend, trading volume, net position of each member etc. is essential. IT provides this information on the basis of which regulatory authority takes necessary steps for controlling the market.

(8) Quick Settlement :

IT provides information about the net position of members. Who has to pay and how much and who has to receive and how much that is made clear everyday. Therefore, settlement of accounts becomes very quick and accurate. Reduction in settlement cycle from T + 5 to T + 2 has been made possible by development of IT.

(9) Reduction in the Levels of Organisation :

Because of IT the top level management can receive information regarding bottom level quickly and can issue directions immediately. Bottom level also can get guidance from the top level management. As a result there is no need for middle level. In this way IT has reduced the levels of organisation and therefore, organisations are becoming flatter and flatter.

1 Regulated Markets and Co-operative Marketing

[A] Regulated Markets

[1] Introductory :

India is predominantly an agricultural country. Millions of families depend for their livelyhood on agriculture. But during the British rule their tragedy was that the sweated production of the farmers was sold to the middlemen surprisingly at low prices, hardly covering the cost of production. Indian farmers were exploited by the middlemen including money lenders in many ways. In the fields of agricultural markets many types of malpractices were indulged into by the middlemen. As a result consumers were paying more but the farmers were receiving negligible amount for their crop. There used to be a wide gap between the price paid by the consumers and the price received by the farmers. The gap was largely due to the malpractices adopted by the middlemen.

The various malpractices adopted by the middlemen can be stated as under :

(1) Middlemen used to take sizable free sample from the farmers for examining the quality.

(2) No standardised measures of weight were used.

(3) They used to ask for reduction in weight on the ground of moisture and dust.

(4) Farmers were required as a general practice to give cash discount to the purchasing middleman.

(5) He had to pay unauthorised commission charges.

(6) In the absence of waiting capacity and competition farmers were under pressure to sell to the middleman at much lower prices determined by the buyer.

(7) Generally money lender used to take away the crop as recovery of credit granted to the farmer at a price determined by the money lender.

As mentioned above, in the absence of competitive bidding farmers were getting very low prices on the one hand and on the otherhand multiple charges were deducted from the price leaving behind very littile for the farmer. As Royal Commission on Agriculture had noted in its report in 1926, "These (malpractices) can only be removed by the establishment of Regulated Market.

The above recommendation was reinstated by The Bombay Provincial Banking Inquiry Committee in 1930 and also by the Central Banking Inquiry Committee in 1931.

Following the above recommendations different provincial governments began to enact the laws for agricultural markets. In 1930 Hydrabad Agricultural Markets Act was passed. Other states followed the foot steps of Hyderabad state. In Gujarat, for the regulation of agricultural markets. The Agricultural Produce Market Act was passed in 1963. Today, all the states are having Agricultural Produce Markets Act for the establishment of regulated markets. Today, almost at each Taluka place there is a regulated market for agricultural produce. They are regulated by the State Government.

[2] Objectives of Regulated Markets :

The main objectives of regulated markets can be stated as under :

(1) To create the marketing system which assures competitive prices to the farmers for their produce.

(2) To provide protection to the farmers against malpractices and corruption.

(3) To promote healthy market traditions and conventions.

(4) To encourage healthy market competition.

(5) To make provision for the settlement of disputes if any.

(6) To make the producers aware of the lattest market prices.

(7) To co-ordinate the interests of the consumers, producers and merchants.

(8) To create an effective agricultural marketing system under the control of government.

(9) To provide representation to the producers in the marketing system.

[3] Management : Market Committee :

The regulated market is managed by the market committee. The market committee is a perpetuate corporate body with its own common seal. It can acquire and possess property in its own name and can file a suit on others in its own name. It can borrow money in its name. It is responsible for the overall management of the regulated market.

[4] Formation of Market Committee :

The Market Committee is formed as per Agricultural Produce Markets Act of the state. The total number of members of the committee differ from state to state. Generally, the Market Committee includes the representatives of farmers, traders, local self government, state government, co-operative institutions etc. The size of the committee should be big enough to accommodate the representatives of different interested classes. In the seminar of 1959 it was recommended that the committee should be of 12 to 18 members and commission agents' representatives should not exceed 25 p.c. of the total members. If the trading community is having dominating voice in the committee they will take the decisions in their favour and against the interest of the farmers. Therefore, representation of trading community in the committee upto 25 p.c. was recommended.

[5] The Functions and Duties of Market Committee :

The Market Committee performs the following functions (duties) in respect of regulated market :

1. The committee constructs and maintains the market yard as a place of market as per legal provisions.
2. It makes the provision of godowns in the market yard for the purpose of storage.
3. It determine working hours, rates of commission and labour charges.

4. Prevention of adulteration by taking various steps is also one of the functions of committee.
5. It provides facilities for scientific classification and grading.
6. Its one of the important duties is to see that the farmer's produce is sold through open competitive bidding.
7. It frames rules and regulations and prepares bye laws for the control of market.
8. It prepares the budget within the prescribed time limits and gets it sanctioned.
9. It prepares annual accounts and gets them audited.
10. The committee issues license to commission agents, traders, brokers etc. and renews it.
11. The committee has the power to cancel the license received by unlawful means.
12. It prevents the traders from doing business in the market without license.
13. Infrastructure facilities like roads, godowns, transport, banking etc. are provided in the market by the committee.
14. It provides canteen facilities for farmers coming from distant places.
15. The committee displays the daily prices on the board for the knowledge of farmers.
16. The committee settles the disputes regarding prices, quality etc.

[6] Market Functionaries :

Regulated market functioneries include the following.

(a) Market Committee.
(b) Chief executive officer or Secretary.
(c) Commission Agents.

(a) Market Committee : As discussed above market committee is the top management body framing rules and regulations making policy decisions and getting them implemented through secretary. It performs the functions as stated above.

(b) Chief Executive Officer or Secretary : Generally secretary acts as the chief executive officer of the market. He is the chief administrator of the market. He supervises and directs the market activities and provides leadership to the market. He is responsible for the execution of goverment policy and decisions made by the market committee and also for the maintenance of the market yard.

He is also responsible for the management of market fund. Market fee is collected by charging market fee from the commission agents.

(c) Commission Agents : Commission agents are the main functioneries of the regulated markets. They are the licensed traders. For functioning in the market they are required to get license from the market committee by paying the prescribed fee. Each commission agent is supposed to have an office with market shed and storage facility in the market yard. His office is connected with other market yards by the modern means of communication and gets real time information of prices quoted in the commodity exchanges and the other market yards.

The main function of the commission agent is to purchase from the sellers who are the farmers and to sell to the traders, exporters, producers, wholesalers etc. They purchase agricultural produce from farmers in open auction. In open auction there is competitive price bidding. Commission agents interested in purchasing. check the quality of the produce on the spot and bid the price. The highest bidder is declared as buyer. The commission agent who is selling farmers' produce from his premises charges commission from the farmers and from the buyer at a rate fixed by the market committee. In Gujarat, as per directive of Gujarat Government, from 2010 no commission is charged from the farmers. Former seller is paid the price on the same day.

Commission agent gives advice to his client farmer regarding price movement. If the bidded price is low he advises the client farmer not to sell and wait for some days. He offers godown facility for storage of unsold commodities. Thus commission agent acts as a guide and friend of client farmers.

[7] Advantages of Regulated Markets :

The regulated markets have proved to be a blessing for the farmers on account of its following advantages to the farmers.

1. **Elimination of malpractices :** Different types of malpractices indulged into by the middlemen before the advent of regulated markets have now been abolished by the regulated markets.
2. **Standardisation and grading :** Regulated market provides facilities for standardisation and grading. As a result farmers get better price for better grade.
3. **Sale through open competitive bidding :** As per prescribed rules and procedure of the market agricultural produce is sold through the method of open competitive bidding. Traders bid the price in an environment of open competition and the produce

is sold to the highest bidder. Therefore, farmers get the competitive price.

4. **Immediate payment of price :** The buyer makes the payment to the farmer immediately. i.e., on the same day.
5. **Settlement of Disputes :** An arrangement is made for the settlement of disputes regarding price and quality.
6. **Abolition of unwanted middlemen :** Only the licensed commission agents are permitted to buy and sell in the market. Others have no place in the market.
7. **Right information to the producers :** Market committee provides right information about prices on the board placed in the market.
8. **Facilities for producers :** It provides godown, banking and canteen facilities for the producers.
9. **Domination of farmers' representatives on the market committee :** Dominating position of farmers' representatives on the committee protects the interest of farmers.
10. **Marketing awareness :** Regulated markets have aroused marketing awarness among the farmers. Therefore, now farmers have become conscious of market forces and try to get better price for their produce.
11. **Contributes to the development of agriculture :** Regulated markets by assuring competitive prices and better price for better grade encourages farmers to grow more.
12. **Collection of information :** It collects information useful for marketing and provides to the government and media for publication and telecast.
13. **Healthy marketing conventions :** It promotes healthy and honest marketing conventions.

[8] Limitations :

In spite of many good things regulated markets have got certain limitations also which are as under :

1. **Small size of market yard :** For free competition there should be large number of buyers and sellers. Of course, sellers (farmers) are in large numbers, but buyers are limited because size of the market yard in many cases is not large enough to accommodate a large number of commission agents. Size of the yard is a limiting factor for free competition.
2. **Problem of implementation of marketing Act :** Implementation of Agricultural Produce Marketing Act is vested with the market committee. But the market committee has its own limitations.

Personal relations and influence act as deterrent factor for effective implementation.

3. **Syndicated Trading :** Danger of syndicated buying is there in regulated markets too. Commission agents may form the concealed syndicate and by mutual understanding may bid lower prices causing a loss to the farmers.

4. **Financial Limitations :** During the crop season markets are glutted with the crops. But because of financial limitations buyers do not come forward in large numbers to buy the crop. As a result prices tend to decline. Ultimately farmers have to suffer when there is a bumper crop.

5. **Lack of sufficient godown facilities :** Farmers bring their crop to the market by bullock cart, camel cart or truck. But if on that day prices are quoted very low at which farmer is not prepared to sell. He has to carry his crop back to home. But it becomes very costly for him. Under such circumstances in order to provide storage facilities to the farmers till the prices rise to satisfactory level godowns are constructed within the market premises. But such godown facilities are not sufficient. Therefore, all farmers cannot take advantage of godown facility.

6. **Lack of standardisation and grading facility :** All the regulated markets are not fully equipped with standardisation and grading facilities. As a result farmers do not get better price for better grade.

7. **Limited Regulated Markets for fruits and vegetables :** All the farmers growing vegetables and fruits are not in a position to reap the benefits of the regulated market because very few markets are there for such crops.

8. **Lack of roads :** Roads connecting surrounding villages to the market yard is an important infrastructure for the development of regulated markets. However, lack of roads or poor conditions of such roads act as an obstacle for the transportation of crops.

[9] Recommendations of a Seminar on Regulated Markets :

In the year 1959 under the auspices of Food and Agriculture Department of Central Government a seminar on regulated market was organised. In the seminar the following recommendations were made for making the regulated markets more effective.

1. **Areas of market :** So far feeding area of the market is concerned uniform pattern for all the states cannot be recommended because conditions differ from state to state. However, one market for each Taluka place or like that area can be recommended.

2. **Member of the market committee :** The seminar recommended total 12 to 18 members in the market committee and representation of trading community should not exceed 25 p.c.
3. **Market yard :** Size of the market yard should be determined scientifically taking into account the arrival of the crop in the harvest season.
4. **Fund for the market committee :** For raising funds for the market committee, means like market fee, license fee, registration fee etc. should be used.
5. **Implementation of marketing Act :** For that separate state marketing department should be created.
6. **Selling method :** Crop should be kept open and should be sold by open competitive bidding method.
7. **Co-ordination :** There should be co-ordination between the regulated market, co-operative maarketing societies and warehousing corporation.
8. **Grading :** Produce should be graded and sold on the basis of grade.
9. **Market information :** Information pertaining to incoming and outgoing agricultural produce and the lattest price should be displayed on the board.
10. **Regulated markets for live stock :** Regulated markets should be established for live stock also.
11. **Regulated markets for fruits and vegetables :** Markets of fruits and vegetables should also be regulated.
12. **Role of co-operative societies :** Each regulated market should have co-operative marketing society and it should have its representation on the market committee and it should be assigned the job of grading.

[10] Recent Trends of Regulated Markets :

The recent trends of regulated markets are based on the recommendations of a seminar held in 1959. They are as under :

1. **Increase in the number of regulated markets :** Pursuant to the recommendation of the seminar of one market for each Taluka place or for similar area new markets have been established almost at each Taluka place. As a result number of regulated markets has increased from 200 in 1951 to 7062 in 1998.

2. **Establishment of distinct types of regulated markets :** New markets for fruits, vegetables, fish and live stock have been established for which there was no market in the earlier years.

3. **Development of co-operative marketing societies linked with regulated markets :** As per recommendation of the seminar co-operative marketing societies link with regulated markets have been established.

4. **Government Assistance :** For the development of regulated markets on sound lines, government is providing assistance in different forms as under :

   (a) **subsidy** to the co-operative marketing societies for the construction of godowns.

   (b) **Government regulation on market committee.**

   (c) Standardisation of labour charges, procedure of bidding and rates of commission.

   (d) Facilities for grading.

   (e) Display of lattest prices on the board and encouragement to telecast and broadcast the prices.

5. **Infrastructure facilities :** Modern regulated markets are equipped with market yard, godown, banking, canteen roads and transport facilities.

6. **Publicity of prices :** Daily prices are published through news papers and broadcast and telecast by radio and TV in the interest of producers.

7. **Facilities for standardisation and grading :** Modern regulated markets provide this facility also so that farmers get better prices for better grades.

8. **Storage facility :** For this purpose godowns are built up in the market premises.

9. **Sale of Input :** Provision is made in the market yard for the sale of input like improved seeds, fertilisers, pesticides, insecticides, cattle food etc.

10. **Construction of market yard on scientific basis :** Market yards are constructed taking into account entry and exit requirements, storage requirements, canteen and parking requirements and long term requirements of the market.

[B] Co-operative Marketing

[1] Introductory :

Regulated market is one of the ways to get rid of the evils of private marketing system. The another alternative of selling the produce at the best available price is co-operative marketing. Co-operation is a way of living life, a philosophy of life. This philosophy of life if applied to agricultural marketing, it not only protects the interest of the producers from the unfair practices of private marketing system but also promotes the economic interest of the agriculturist. Therefore, both state and central government are encouraging the promotion of co-operative marketing societies. For protecting self interest from the evils of private marketing producers of cotton, tobbaco, sugarcane, groundnuts, chiku, milk etc. have formed co-operative marketing societies for the purchase and sale of agricultural produce on co-operative basis.

[2] Structure of Co-operative Marketing :

Marketing on co-operative basis requires formation of co-operative marketing society. Co-operative marketing society is a voluntary association of producers formed for the purpose of protecting and promoting economic interest of the members by purchasing and selling their produce on co-operative basis. Milk producers co-operative marketing societies, sugarcane growers co-operative marketing societies, cotton growers co-operative marketing societies, tobbaco growers co-operative marketing societies etc. are the examples.

Co-operation being a state subject its structure differs from state to state. In certain states two level structure is adopted. At district level producers primary co-operative marketing societies are formed. At state level a federated body is formed. In case of certain produce three tier structure is also found. e.g., at village level Milk Producers' Primary Milk Marketing Co-op. Society and at district level a union of the primary societies is formed. Banas Dairy, Sagar Dairy, Sumul dairy etc. are the examples. At the state level State Co-operative Marketing Federation is formed. Gujcomasol, Gujarat State Oil seeds Growers Federation, Gujarat Co-operative Milk Marketing Federation are the examples.

If we look at the national level scene, we find three levels of co-operative marketing structure as under :

(a) Primary co-operative marketing societies at village or district level.

(b) Co-operative Marketing Federation at the state level e.g. GujCOMASOL.

(c) At the national level we find national co-operative marketing Federation e.g., NAFED (National Agricultural Co-operative Marketing Federation).

[3] Role of Co-operative Marketing Societies In the Regulated Markets :

In the above paragraph we studied that in India at state level and National level co-operative marketing federations have come into existence. Over and above protecting the interest of members they are expected to play the following roles in the regulated markets also.

(1) To create a system which enables the farmers to get economically viable prices :

Purchasing of agricultural produce, to store, process and to sell and to distribute the fertilisers and improved variety of seeds are the routine functions of any co-op. marketing society. But it is not enough. Economic interest of the farmers is connected with the prices they receive. They may produce more but if they don't get economically viable prices for their produce, there is little scope for the improvement of their economic conditions. On the other hand, if they don't get reasonable and viable prices, they don't get any encouragement to produce more. As a result production will decline. Along with farmers consumers too have to suffer. Therefore, in the interest of farmers, consumers and the nation. Co-operative marketing societies are expected to create a system in which farmers are saved from distress selling, they get economically viable prices even when the markets are glutted by the arrival of new crop and get finance against their crop to meet their urgent financial requirements.

(2) Role of reducing the gap between price paid by consumers and the price received by the farmers :

Steep fall in the prices on arrival of the new crop in the market and when the stock with the farmers gets exhaunsted gradual increase in the price is the modus operandi of the private marketing system. On the one hand consumers pay higher prices and on the other hand farmers do not get viable prices. This situation is created by the private sector middlemen. Their malpractices result into exploitation of both consumers as well as farmers. To narrow down the gap is the duty of the government and the co-operative marketing societies are expected to help the government in this respect by removing malpractices, building storage facilities and standardisation and grading.

(3) Purchasing at support prices in the regulated markets :

In order to assure economically viable prices to the farmers, the Government declares support prices for different crops well before the harvest season. Such support prices are declared for paddy, wheat, cotton, Juwar, Bajara, groundnuts etc. When the market price go below the support price, it is the duty of the government agencies to purchase from farmers at support price. In case of wheat and paddy Food corporation of India, in case of cotton the Cotton corporation of India snd in case of ground nuts NDDB make purchasing at support prices. Juwar and Bajara are purchased by NAFED. Over and above these government agencies, certain marketing federations also purchase at support prices just to maintain price stability. e.g., In Gujarat for maintaining the price level of groundnuts Grofed becomes active, in Maharastra for maintaining the price level of cotton the Maharastra State co-op. Cotton Growers Marketing Federation makes purchasing of cotton at support price. When the state level marketing federation feels that prices go below the level of reasonable prices they start purchasing in bulk in regulated markets to maintain the price level. In this way co-operative marketing society plays the role of price stabiliser in the regulated market.

(4) Market Intervention for Price Stability :

Demand and supply situation is first of all reflected in the commodity exchange and that reflection ultimately reaches to unorganised markets. If the speculators in the organised market forecast plenty of crop in the coming season, forward prices decline. Spot prices too decline in anticipation of plenty of crop. When the price declines, buyers postpone their buying in anticipation of further decline. This tendency further aggravates the price situation. Under such circumstances state level or national level marketing federations intervene in the market. They start purchasing in bulk in regulated market, store it and release the supply gradually so that price stability can be maintained. In Gujarat when prices of groundnuts decline GROFED and NDDB play the role of market intervention.

(5) Role of Government Agent :

Sometimes marketing federations play the role of government agent. They buy on behalf of government. For example, in Maharastra purchasing of cotton is the monopoly of government so that farmers get reasonable prices. But on behalf of government purchasing of cotton is made by Maharastra state Co-op Cotton

Growers marketing Federation. Here the federation acts as an agent of the government. In the same way NAFED purchases Juwar and bajra on behalf of government owned Food Corporation of India. This agency role is also played in the regulated markets to safeguard the interest of the farmers.

(6) Purchase and Sale on Commercial Basis :

Many marketing federations have their processing units also. For example, Grofed runs the oil mill. For their processing unit they purchase the raw materials on commercial basis. They process the raw materials, store it and when prices start rising they gradually release the stock to prevent sudden rise in price. In this way co-op. marketing societies and federations buy and sell on commercial basis.

In short co-op. marketing societies and federations play different roles in the regulated market. Their success depends upon the management and their own perception of different roles.

EXERCISE

1. Explain the need and objectives of a regulated market.
2. Explain the constitution and functions of market committee.
3. State the advantages and limitations of market committee.
4. Throw light on the role of co-operative marketing in regulated markets. **(April - 1997)**
5. Explain the recent trends of regulated markets.
6. Explain as to how regulated markets and co-op. marketing have removed the defects of Indian agricultural markets. **(April - 1994)**
7. Explain the functioneries of regulated markets.
8. Write short notes on :
   (a) Market committee
   (b) Co-operative marketing as price stabiliser
   (c) Structure of co-op. marketing in India
   (d) Commission agent.

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2 Standardisation and Grading

[1] Introductory :

Standardisation and grading is one of the functions of commodity exchanges and regulated markets. Once the standardisation is specified the commodity can be classified into different grades as per set standards. Different prices are quoted for different grades and trading can be made in the name of grade without inspecting the quality. Therefore, hereunder an attempt has been made to clarify the concepts of standardisation and grading.

For measuring the length, weight, quantity, quality etc. we need measurements. For measuring the length of cloth we need meter tape. For measuring weight kilogram is there. For measuring the quantity of milk, petrol, kerosene etc. litre is used. These are the standard measures. In the same way for measuring the quality of any product we need standards. The process of determining such standards is known as standardisation. At the end of the process we determine the measurement for measuring the quality of agricultural produce. This measurement is known as standard. Using this standard, quality of the produce is measured and classified into different classes or grades according to quality standards. **The process of classifying the produce into different grades with the help of standards is known as grading.**

Standardisation and grading assures reasonable prices to the farmers and quality to the consumers. Transactions can be made simply by giving the name of grade.

[2] Meaning of Standardisation :

Prescribing of specifications of quality according to which industrial production can be made and agricultural produce can be sorted out is known as standardisation.

Standardisation is a process of determining the standard of quality with the help of which the quality is measured and according to quality it is classified into different grades. Such standard of quality is expressed in terms of specifications like length, smoothness, thickness, size, durability etc.

For example, we want to classify chiku into different grades like No. 1, No. 2 etc. Here what we are required to do is to prescribe the standards or specifications for No. 1 and No. 2. Suppose we lay down the following specifications for chiku No. 1 :

(a) Colour : Reddish

(b) Weight : 75 to 80 grams

(c) Size : Diameter of 4 to 5 centimeter

(d) Surface : Smooth

These are the specifications or standard for measuring the quality of chiku No. 1. All the chikus possessing above specifications are sorted out as No. 1 Chiku. They will be placed in grade1. Others will be placed in another grades as per specifications or standards of quality.

In case of agricultural produce standards for measuring the quality are determined taking into account the nutritive value or nutritive elements, size, weight, durability, colour, defects etc. On the basis of such standards the produce is classified into different grades. Each grade is given a specific name e.g., Chiku No. 1, Chiku No. 2, in case of cotton, shanker - 4, shanker 6, Maharastra H-4, Maharastra AHH 468, Bengal Deshi Fine, Bengal Deshi Extra Superfine, etc. Each class or grade indicates specific colour, length of cotton etc. In case of agricultural produce standardisation of cereals, pulses, fruits, vegetables etc. is possible. If we standardise and classify into different grades higher prices can be charged for higher grades.

[2.1] Objectives of Standardisation :

The main objectives of standardisation can be stated as under :

(1) Economy in cost : Standardisation affords economies in cost. If final product is standardised, that is detailed specifications for each part and raw materials are laid down, purchasing can be made accordingly so that unwanted purchases can be avoided. Cost of unwanted materials, processes and wastage can be avoided.

(2) Convenience in use : All units of the standardised items are similar. Therefore, one can be used in place of the other. Cotton shanker 6 produced in Baroda district and Bharuch are equal. Delivery of one can be given in place of the other. In industry also if certain spare parts are standardised they can be used by many companies manufacturing the same item but of different brands. e.g., standardised nuts and bolts, plugue of scooter or motorbike etc.

(3) Solution of recurring problems : Certain problems arise repeatedly. For example, for manufacturing specific quality of cotton cloth raw materials of certain quality should be purchased after inspecting the quality. Every time we have to inspect the quality of raw materials. But if the final product and its raw materials are standardised and a specific name of the grade is given purchasing of required quality can be made simply by mentioning the name of the grade. Every time inspection of quality is not essential.

(4) Provides standards for grading : Standardisation is helpful in classifying the same product in different grades according to quality. e.g., Sugar A, B, C, etc.

(5) Standardisation of Process, methods and tools : Standardisation of product leads to standardisation of production process, methods and means used for manufacturing the product.

[2.2] Importance - Advantages of Standardisation :

(1) Standardisation makes the procedure of purchasing and selling easy because simply by referring to the name of standard purchasing and selling can be made.

(2) By mentioning the grade in advertisement we can make the product more popular.

(3) Valuation of standardised item becomes easy in case of its loss in transport or railway for insurance purpose.

(4) Banks provide credit readily against the security of standardised items.

(5) Standardisation results into a few grades. Therefore, multiplicity of grades can be avoided.

(6) According to requirement of grade transport facility can be hired.

(7) Standardisation reduces the cost.

(8) Guarantee of the quality can be given.

[2.3] Disadvantages of Standardisation :

Disadvantages of standardisation are as under :

(1) There is no scope for the use of intelligence and development of personal skills if standardised processes and methods are used. Therefore, it acts as deterent to development of personal skills and use of intelligence.

(2) A man ceases to be a man and becomes a machine working in a particular fashion.

(3) It inhibits the development of new thinking.

(4) Productin secrecy cannot be maintained because standardised items can be used elsewhere also. e.g., standardised parts are used in all scooters.

(5) It kills initiative and individuality.

[2.4] Basis of Standardisation :

Standardisation depends upon the following factors :

1. **Basis of quality :** Which includes nutritive elements, chemical properties, purity etc.
2. **Weight :** Standardisation can be done on the basis of weight also. e.g., 90 chikus in 10 kg. for chiku No. 1 quality.
3. **Size :** Standardisation may be based on length, width, thickness etc. e.g., wheat and jowar can be standardised on the basis of size.
4. **Colour :** e.g., cotton, wheat, jowar etc. can be standardised on the basis of colour.
5. **Service :** Service also can be one of the basis of standardisation. e.g., two in one, three in one etc.

[3] Grading :

[3.1] Meaning :

Grading is the process of sorting individual specimens of a given product to the standard grades or classes to which they belong.

Standardisation provides us standards for measuring the quality. With the help of such standards different classes of the same product are prescribed like grade-1, grade-2, grade-3 etc. or grade A, B, C etc. Then each specimen is examined, its class or grade is determined with the help of standards and is placed in that particular class or grade. In this way all the specimens one by one are sorted out into different grades. This process of sorting out the items into different grades on the basis of specific standards is known as grading.

[3.2] Methods of Grading :

There are two methods of grading :

(a) Grading by examining each item.

(b) Grading by examining representative samples where numbers being large examining of individual item is impossible.

Further more, grading can be fixed grading in which there is no change in the quality of a particular grade.

Grading can be variable also in which quality of a particular grade changes. It means standard changes.

[3.3] Advantages of Grading :

1. It increases the knowledge of the traders about quality and price of a product.
2. Producers get the reasonable price consistent with grade.
3. Purchaser is assured of quality. He will get the delivery of the grades demanded by him.
4. It abolishes adulteration.
5. Purchasing and selling can be done simply by mentioning the grade.
6. With the help of grades forward contracts are also made.
7. It encourages the producers to produce better quality grade.
8. By mentioning the name of the grade in advertisement, the product can be made more popular in the market.
9. Production of same grade produced at different places assures the same quality.
10. Banks lend readily on graded goods.
11. It reduces cost and time because without inspection of quality transactions are made simply in the name of grade.
12. If goods received is not as per grade mentioned in the purchase order it can be returned to the seller.

[4] Legal Provisions for Standardisation and Grading :

Legal provisions regarding standardisation and grading are as under :

(A) For Agricultural Produce - Agricultural Produce (Grading and marketing) Act - 1937. Which makes the provision of the marking "Agmark".

(B) For Drugs and Cosmetics - The Drugs and Cosmetics Act, 1940, is there.

(C) For all other Industrial Products - The Bureau of Indian Standards Act, 1986 is there. It uses ISI marking. Before BIS Act Indian Standards Institution was there and it used ISI marking. That sign of marking has been continued by BIS also. Any item bearing the symbol of ISI or Agmark are supposed to be of good quality.

EXERCISE

1. Define standardisation and grading.
2. What are the merits and demerits of standardisation?
3. State the advantages of grading.
4. "Standardisation and grading are complementary to each other" - Discuss.
5. What is standardisation? Explain its importance. **(April - 1995)**
6. "Grading enables the producer to charge price according to grade and assures consumers of quality as per price" - Explain.

(April - 1995)

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Depository: Objectives, Functions and Role of Depository Participant

Meaning of Depository

A **Depository** is an institution that holds securities such as **shares, debentures, bonds, government securities and mutual fund units in electronic (dematerialised) form**.

Just as a bank holds money in an account, a depository holds an investor's securities in an electronic account. It makes the process of buying, selling, transferring and settling securities easier and safer.

In India, there are two main depositories:

1. **National Securities Depository Limited (NSDL)**
2. **Central Depository Services (India) Limited (CDSL)**

The depository does not normally deal directly with individual investors. Investors access depository services through a **Depository Participant (DP)**.

Objectives of Depository

1. Eliminate physical certificates

The main objective of a depository is to eliminate the need for physical share certificates. Securities are converted into electronic form and maintained digitally.

This reduces paperwork and makes the securities market faster and more convenient.

2. Ensure safe custody of securities

A depository provides a secure electronic system for holding securities. The chances of loss, theft, damage or destruction of physical certificates are eliminated.

3. Facilitate easy transfer of securities

Depositories make the transfer of shares and other securities quick and convenient. When an investor sells securities, ownership can be transferred electronically.

4. Reduce risks in securities transactions

Physical certificates may involve risks such as forgery, fake certificates, bad delivery and loss during transportation. The depository system significantly reduces these risks.

5. Promote efficiency in the capital market

The depository system makes transactions faster and more organised. It helps stock exchanges, investors, brokers and companies complete transactions efficiently.

6. Reduce transaction costs

Dematerialisation reduces expenses related to printing, handling, storing and transferring physical certificates.

7. Provide accurate records

The depository maintains electronic records of securities owned by investors. This helps establish clear ownership and reduces disputes.

8. Facilitate corporate benefits

Depositories help investors receive corporate benefits such as **dividends, bonus shares, rights shares and interest payments** efficiently.

9. Support settlement of securities

Depositories play an important role in the settlement of stock-market transactions. Securities are transferred electronically from the seller's account to the buyer's account.

10. Increase investor convenience

Investors can hold different securities in one electronic account and monitor their holdings easily through their Depository Participant.

<u>Functions of Depository</u>

1. Dematerialisation of securities

The depository converts physical securities into electronic form. This process is known as **dematerialisation or demat**.

Example:
If an investor has 500 physical shares of a company, these shares can be converted into electronic form and credited to the investor's demat account.

2. Rematerialisation

A depository also provides the facility to convert electronic securities back into physical certificates when permitted. This process is called **rematerialisation.**

3. Holding securities electronically

The depository maintains securities in electronic form on behalf of investors. It maintains records of ownership and balances.

4. Transfer of securities

When securities are bought or sold, the depository facilitates their electronic transfer between the buyer's and seller's accounts.

5. Settlement of trades

Depositories help in the settlement of transactions carried out through recognised stock exchanges.

For example:

Seller's demat account → Depository system → Buyer's demat account

This makes settlement quicker and safer.

6. Pledging and hypothecation

Investors can use securities held in their demat accounts as security for obtaining loans.

For example, shares can be pledged with a bank or financial institution.

7. Corporate benefits

Depositories facilitate the distribution of corporate benefits such as:

- Dividend
- Bonus shares
- Rights shares
- Interest
- Redemption proceeds

8. Account maintenance

The depository maintains electronic records of securities belonging to investors through their Depository Participants.

9. Transmission of securities

In case of the death of an investor, securities can be transferred to the legal heir or nominee according to the applicable procedure.

10. Facilitate electronic communication

Depositories facilitate communication and information flow between investors, companies, stock exchanges and other participants in the securities market.

Meaning of Depository Participant (DP)

A **Depository Participant (DP)** is an intermediary that acts as a link between the **investor and the depository**.

An investor normally cannot directly open an account with NSDL or CDSL. The investor opens a **Demat Account with a Depository Participant**.

DPs may include:

- Banks
- Stockbrokers
- Financial institutions
- Certain other entities authorised by the depository and SEBI

Simple example;

Suppose **Riya wants to buy 100 shares of a company**.

Investor → Depository Participant → Depository → Securities Market

The DP provides Riya with a demat account, maintains her securities account and carries out instructions relating to her securities.

Role of Depository Participant

1. Opening of Demat Account

The DP opens a demat account for the investor after completing the required **KYC (Know Your Customer)** formalities.

This account is used to hold securities electronically.

2. Dematerialisation of securities

The DP accepts physical share certificates from the investor and forwards the request for conversion into electronic form to the depository.

After successful processing, securities are credited to the investor's demat account.

3. Rematerialisation

If an investor wants physical certificates, the DP accepts the rematerialisation request and processes it through the depository.

4. Buying and selling securities

The DP facilitates the movement of securities when an investor buys or sells shares.

For a sale, securities are debited from the seller's demat account. For a purchase, securities are credited to the buyer's account.

5. Transfer of securities

The DP processes the investor's instructions for transferring securities from one demat account to another.

6. Maintaining investor records

The DP maintains records relating to the investor's demat account and securities held in it.

The investor can receive statements showing the securities held in the account.

7. Processing corporate benefits

The DP helps in crediting corporate benefits such as:

- Bonus shares
- Rights shares
- Stock splits
- Dividends and other eligible benefits

8. Pledge and hypothecation

The DP facilitates the pledging or hypothecation of securities when an investor wants to use securities as collateral for a loan.

9. Transmission of securities

In case of the death of an account holder, the DP helps transfer securities to the nominee or legal heir after completion of the required formalities.

10. Providing statements

The DP provides account statements to investors showing details of securities held, transactions, credits and debits.

11. Updating investor information

The DP helps investors update information such as address, bank details, nomination and other account-related information according to the applicable procedures.

12. Grievance handling

The DP acts as the first point of contact for many demat-related problems. Investors can approach the DP regarding account statements, transaction discrepancies, transfer issues and other services.

Difference between Depository and Depository Participant

Basis	**Depository**	**Depository Participant**
Meaning	Institution that holds securities electronically	Intermediary connecting investors with the depository
Examples	NSDL, CDSL	Banks, stockbrokers and authorised financial institutions
Relationship	Provides the central depository system	Provides services directly to investors
Investor account	Maintains the underlying records	Opens and services the investor's demat account
Main role	Electronic holding and settlement of securities	Customer-facing demat and transaction services
Contact with investor	Usually indirect	Direct
Example	CDSL	A bank or broker registered as a CDSL DP

Conclusion

A **Depository** is the institution that provides the central electronic system for holding and transferring securities, while a **Depository Participant** acts as the link between the depository and the investor. Together, they make the securities market **safe, efficient, transparent and convenient**.

<u>General Guidelines for Investors</u>

<u>Meaning of Investor</u>

An **investor** is a person or institution that invests money in financial assets such as shares, bonds, debentures, mutual funds, government securities, etc., with the expectation of earning income or capital appreciation in the future.

Investment involves **risk and return**. Therefore, an investor should make decisions carefully rather than investing only on the basis of rumours or short-term market movements.

<u>Important Guidelines for Investors</u>

1. Set clear investment objectives

Before investing, an investor should determine the purpose of investment, such as capital growth, regular income, retirement planning, children's education, or wealth creation.

2. Understand the investment

An investor should understand the nature, risk, return and terms of the security before investing.

For example, **equity shares** generally have higher risk than fixed-income securities.

3. Consider risk and return

Generally, higher expected returns are associated with higher risk. An investor should select investments according to their risk-bearing capacity.

4. Diversify investments

An investor should not put all money into one security or one industry.

Example: Instead of investing the entire amount in banking shares, an investor may invest in banking, IT, pharmaceuticals, FMCG and other sectors.

Diversification reduces the impact of poor performance of any one investment.

5. Study the financial position of the company

Before purchasing shares, investors should examine the company's sales, profits, debt, assets, cash flows and future prospects.

6. Avoid investment based on rumours

Investment decisions should not be based on WhatsApp messages, social-media tips, rumours or unverified information.

7. Check the credibility of intermediaries

Investors should deal with properly registered and authorised brokers, mutual funds, Depository Participants and other intermediaries.

8. Read all documents carefully

Investors should carefully read the offer document, terms and conditions, risk factors and other relevant information before investing.

9. Maintain proper records

Investors should keep records of purchase and sale transactions, account statements, contract notes, dividend details and other documents.

10. Review investments regularly

Investment should not simply be made and forgotten. Investors should periodically review whether their investments are performing according to their objectives.

Factors Affecting Prices of Securities

The price of securities, particularly shares, is affected by various **economic, industry-specific, company-specific and market factors**.

A. Economic Factors

1. Interest rate

Changes in interest rates affect security prices.

When interest rates rise, borrowing becomes expensive and investors may prefer fixed-income investments. This can reduce demand for shares.

2. Inflation

High inflation increases the cost of production and reduces consumers' purchasing power. If corporate profits decline, share prices may also fall.

3. Economic growth

Strong economic growth generally increases business activity, sales and corporate profits. This can increase demand for securities.

4. Government policies

Tax policies, industrial policies, trade policies, monetary policies and regulatory changes can affect companies and their security prices.

5. Exchange rate

Changes in the value of the domestic currency affect companies involved in exports and imports.

For example, a weaker rupee may benefit some exporters but increase costs for companies dependent on imported raw materials.

B. Company-Specific Factors

1. Earnings and profitability

Companies with increasing profits generally attract more investors, which can increase their share prices.

2. Dividend policy

Companies paying stable and attractive dividends may be preferred by investors seeking regular income.

3. Management quality

Efficient and honest management increases investor confidence.

4. Debt position

A company with excessive debt may face greater financial risk, especially when interest rates increase.

5. Business expansion

Expansion into new markets, introduction of new products or increased production capacity may positively affect future earnings and security prices.

C. Industry Factors

The performance of a particular industry can influence the prices of securities belonging to that industry.

Important industry factors include:

- Demand for industry products
- Level of competition
- Government regulations
- Availability of raw materials
- Technological changes
- Industry growth
- Changes in consumer preferences

D. Political and Social Factors

Political stability, elections, government decisions, international conflicts and social conditions can influence investor confidence.

Political uncertainty may increase market volatility.

E. Market Factors

Security prices are also influenced by:

- Demand and supply
- Market sentiment
- Trading volume
- Speculation
- Foreign investment flows
- Domestic institutional investment
- Global market movements

Fundamental Analysis

Meaning

Fundamental analysis is a method of evaluating the intrinsic or fundamental value of a security by studying the economic environment, industry conditions and financial performance of the company.

The basic idea is:

> **A company's financial and economic fundamentals determine its long-term value.**

An investor compares the estimated intrinsic value with the current market price.

Three Levels of Fundamental Analysis

1. Economic Analysis

The overall economy is studied.

Important factors include:

- GDP growth
- Inflation
- Interest rates
- Employment
- Government policies
- Money supply
- Exchange rates
- Business cycles

Example: If the economy is growing strongly, companies may experience higher demand and profits.

2. Industry Analysis

The investor studies the industry in which the company operates.

Factors include:

- Industry growth rate
- Competition
- Market size

- Government regulations
- Technology
- Entry barriers
- Demand conditions

3. Company Analysis

The individual company's financial and managerial position is examined.

Important factors include:

- Sales
- Net profit
- Earnings per share (EPS)
- Dividend
- Assets
- Liabilities
- Debt-equity ratio
- Cash flows
- Management quality
- Future growth prospects

Importance of Fundamental Analysis

1. Helps identify financially strong companies.
2. Useful for long-term investment decisions.
3. Helps estimate the intrinsic value of securities.
4. Helps understand the financial health of a company.
5. Reduces dependence on rumours and speculation.
6. Helps investors compare companies within an industry.

Limitations

1. It requires detailed financial information.
2. Analysis can be time-consuming.
3. Future events cannot be predicted with certainty.
4. Market prices may remain different from intrinsic value for a long period.
5. Qualitative factors such as investor psychology are difficult to measure.

Technical Analysis

Meaning

Technical analysis is the study of past market prices, trading volume and market movements to predict possible future price trends.

Unlike fundamental analysis, technical analysis focuses mainly on **market behaviour rather than the financial health of the company**.

Basic Assumptions of Technical Analysis

1. Market price reflects available information

Technical analysts believe that information affecting a security is ultimately reflected in its market price.

2. Prices move in trends

Prices generally move upward, downward or sideways for a period of time.

3. History tends to repeat itself

Investor behaviour and market psychology often produce recurring price patterns.

Tools of Technical Analysis

1. Charts

Charts show the movement of security prices over time.

Common charts include:

- Line charts
- Bar charts
- Candlestick charts

2. Trend lines

They help identify whether prices are moving upward, downward or sideways.

3. Moving averages

Moving averages smooth out short-term fluctuations and help identify the general direction of prices.

4. Support and resistance

Support is a price level where buying pressure may prevent the price from falling further.

Resistance is a price level where selling pressure may prevent the price from rising further.

5. Trading volume

Volume indicates the number of securities traded. Changes in volume can provide information about the strength of a price movement.

Importance of Technical Analysis

- Useful for short-term trading decisions.
- Helps identify market trends.
- Helps identify possible entry and exit points.
- Useful for understanding market sentiment.
- Helps traders manage timing of transactions.

Fundamental vs Technical Analysis

Basis	**Fundamental Analysis**	**Technical Analysis**
Main focus	Intrinsic value	Price and volume
Main purpose	Long-term investment	Often short/medium-term decisions
Studies	Economy, industry, company	Charts, trends, price movements
Financial statements	Very important	Less important
Investor behaviour	Less emphasis	Greater emphasis
Main tools	Financial ratios, EPS, profits	Charts, moving averages, indicators

Credit Rating by Different Agencies

Meaning of Credit Rating

Credit rating is an assessment of the creditworthiness or ability of an issuer to meet its financial obligations, particularly repayment of principal and interest on debt instruments.

It helps investors understand the **level of credit risk** associated with a debt security.

For example, a high credit rating generally indicates a relatively lower probability of default, while a lower rating indicates higher credit risk.

Major Credit Rating Agencies in India

Some important agencies include:

- **CRISIL Ratings**
- **ICRA**
- **CARE Ratings**
- **India Ratings & Research**
- **Acuite Ratings & Research**

What Do Rating Agencies Evaluate?

Rating agencies examine factors such as:

1. Financial strength of the issuer
2. Debt level
3. Profitability
4. Cash flows
5. Ability to repay loans
6. Business risk
7. Industry conditions
8. Management quality
9. Economic environment

Credit Rating Scale

Credit ratings commonly use symbols such as:

AAA → AA → A → BBB → BB → B → C → D

The exact definitions and scales vary by agency and type of instrument.

Generally:

- **AAA** = Highest degree of creditworthiness
- **AA** = Very high credit quality
- **A** = Relatively strong credit quality
- **BBB** = Moderate credit quality / investment-grade category
- **BB and below** = Higher credit risk
- **D** = Default or serious payment difficulty

Importance of Credit Rating

1. Helps investors

It helps investors assess the credit risk of debt securities.

2. Helps in investment decisions

Investors can compare different debt instruments based on their credit quality.

3. Reduces information gap

Rating agencies analyse financial information and provide an independent credit assessment.

4. Helps issuers

A good credit rating can improve investor confidence and may help an issuer obtain funds on better terms.

Limitations

A credit rating **is not a guarantee of repayment or investment return**. Ratings can change when the financial condition of the issuer changes. Therefore, investors should not depend solely on the rating.

Market Indicators

Meaning

Market indicators are statistical measures or indices that provide information about the overall direction, condition and performance of the securities market.

They help investors understand whether the market is generally moving upward, downward or remaining stable.

Important of Market Indicators

1. Stock Market Indices

A stock market index represents the performance of a selected group of securities.

Examples in India include:

- **S&P BSE Sensex**
- **Nifty 50**

If an index rises, it generally indicates an increase in the prices of its constituent securities, although individual shares may behave differently.

2. Market Breadth

Market breadth compares the number of securities that are rising with those that are falling.

For example:

Advancing shares > Declining shares → Positive market breadth

Declining shares > Advancing shares → Negative market breadth

3. Trading Volume

Trading volume indicates the number of securities traded during a particular period.

High volume along with a significant price movement may indicate strong market participation.

4. Price-Earnings Ratio (P/E Ratio)

The P/E ratio compares the market price of a share with its earnings per share.

P/E Ratio = Market Price per Share ÷ Earnings per Share

It is commonly used to assess how much investors are paying relative to the company's earnings.

5. Market Capitalisation

Market capitalisation represents the total market value of a company's outstanding shares.

Market Capitalisation = Market Price per Share × Number of Outstanding Shares

6. Dividend Yield

Dividend yield shows the dividend earned relative to the market price of the share.

Dividend Yield = Dividend per Share ÷ Market Price per Share × 100

7. Volatility

Volatility indicates the degree to which security prices fluctuate over time.

Higher volatility generally means greater price fluctuations and therefore greater market uncertainty.

Role of Mutual Funds

Meaning of Mutual Fund

A **mutual fund** is an investment vehicle that collects money from a large number of investors and invests the pooled funds in securities such as shares, bonds, government securities and other financial instruments according to a specified investment objective.

The fund is professionally managed by an **Asset Management Company (AMC)**.

How Mutual Funds Work

Investors → Pool of Money → Mutual Fund → Different Securities → Returns → Investors

For example, instead of an investor directly purchasing shares of 20 different companies, the investor can purchase units of a diversified mutual fund that invests in several securities.

Role of Mutual Funds

1. Mobilisation of savings

Mutual funds collect small savings from a large number of investors and channel them into financial markets.

Thus, they convert household savings into productive investments.

2. Professional management

Mutual funds are managed by professional fund managers who research securities and make investment decisions.

This is useful for investors who may not have the time or expertise to analyse securities themselves.

3. Diversification

Mutual funds invest in a portfolio of different securities.

This reduces the risk associated with investing all money in a single security.

4. Liquidity

Many open-ended mutual fund schemes allow investors to redeem their units, subject to the scheme's terms and applicable rules.

Thus, investors can generally access their money more easily than in some long-term investments.

5. Suitable for small investors

Investors can start investing with relatively small amounts, depending on the scheme.

This makes capital-market investment accessible to a wider section of society.

6. Risk reduction

Diversification can reduce **company-specific risk**. However, mutual funds do **not eliminate market risk**.

The value of mutual fund investments can rise or fall depending on market conditions.

7. Variety of investment options

Investors can choose from different categories of schemes according to their objectives and risk tolerance, such as:

- Equity-oriented funds
- Debt-oriented funds
- Hybrid funds
- Index funds
- Other specialised schemes

8. Economies of scale

Since a mutual fund pools money from many investors, it can invest in a large portfolio and spread certain transaction and management costs across the fund.

9. Encourages financial market development

Mutual funds increase the flow of savings into capital markets and contribute to the development and depth of financial markets.

10. Provides investment discipline- Facilities such as **Systematic Investment Plans (SIPs)** encourage investors to invest a fixed amount at regular intervals, which can promote disciplined investing.

<u>Overall Importance of Investor Guidelines</u>

Investor guidelines are important because investment decisions involve uncertainty and risk.

A good investor should follow the following process:

Understand objective → Assess risk → Study investment → Analyse security → Diversify → Invest → Monitor → Review

The investor should remember:

> **“Do not invest merely because an investment promises high returns. Understand the risk before investing.”**