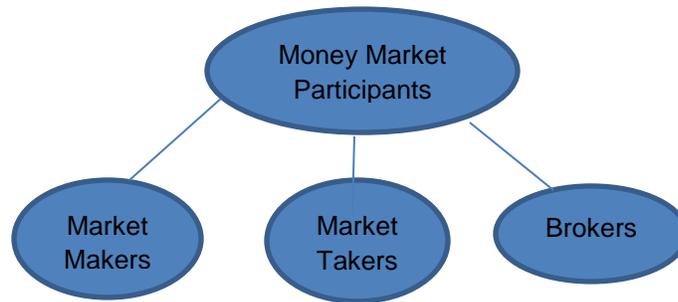


Money Markets: An overview

Money markets refer to the market for borrowing and lending money over a short period of time (up to one year). Money markets themselves are wholesale markets in which the direct participants deal in large amounts.



Who are the market makers?

They are organizations, usually, banks which maintain a firm bid and ask price by standing ready, willing and able to buy or sell at their publicly quoted prices. Now this is what we call making a market.

Who are the market takers?

They are the ones who have to transact at the best price they can find amongst market makers. Example: Corporate customers are most of the times market takers in money markets.

Who are the brokers?

They bring together the borrowers and lenders but do not get into any position themselves.

What are the bid and offer rates on the money market?

A bid rate is the rate at which a market maker will pay to accept (bid for) funds, that is, take a deposit.

An offer is the rate at which the market maker will lend (offer) funds.

A useful distinction that characterizes money market instruments is that they are usually discounted instruments. They have no coupon rate or promised interest payments attached to the security as compared to bonds. Rather, they are sold at a discount to their face value.

Money Market Instruments:

- Treasury Bills
- Certificates of Deposit
- Commercial Papers
- Repurchase Agreement (Repo)

Using money markets for borrowing or depositing is generally substantially more efficient than leaving surpluses or deficits in bank accounts.

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