Money and Banking
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Lecture - 12

Today we start a new topic, topic three. This is very important from your knowledge point of view, because tomorrow particularly economic students would often get jobs in the banks what I am finding, and it is kind of a beginning of kind of things you would like to know about Indian monitory system. The banks often deal with this kind of things that I would talk about Indian money market, because banks are very important institutions in the Indian money market. Money supply definitions velocity kind of conceptual macroeconomic issues; these are macro plus money market related issues which is specific to say the banking sector, etcetera.

Now money market, why is the market? What you have seen economics the first course that you have credited is probably the microeconomics, and in microeconomics we do talk about a market. Market the first thing that comes to peoples mind when you go to a market is this there are some sellers who are selling something, and there are some buyers who are going to buy something. And they meet, and the buying and selling goes on at a price, and people have a choice in a free market; it can be a controlled market which is a different thing. In a free market people have a choice what they buy, if they do not like the price they do not buy it; if they like the price they can buy it.

Another thing about market which you must have learnt in microeconomics is that market does not have a geographical boundary usually. If you say automobile market you do not see automobile market only in Kanpur and Delhi; automobile market can be spread all over the country. Now, you can distinguish between the automobile market in Kanpur and the automobile market in Lucknow; it is a different story, but if you generally call about an automobile market where automobiles are sold, alright; it does not have a geographical boundary.

In fact, if you open the economy it can have an international boundary; the whole world in mars or moon they do not use automobiles still. So, on earth you can have automobile market of the entire world you can have, and that still you can call it a market. Now this kind of a thing is not under macroeconomics; this kind of a thing is only under industrial economics you teach, because in industrial economy you study specific markets like a particular market the pricing policies, the entry exit strategies, the kind number of firms that exist. So, you might think sir, automobile market is it part of macroeconomics? No, it has a macro dimension in the sense country wide, but if you take all markets all goods of the country then it becomes macroeconomics. But if you pick one market where one kind of goods are sold one kind, say, automobiles then it is part of industrial economics; it is not part of macroeconomics.

So, here we have a problem; here you may be calling this sir, is it macro at all. Well it has some macro relevance, but it is not macroeconomics; it has some macro relevance. It has relevance to macroeconomics from the point of view of macro policy issues, because when macro policies particularly monetary policies are adopted it has relevance for this market or the market has relevance for those policies. They matter to each other. You understand what I am saying like some macro policies can have relevance for industrial economics, for instance government sets a tax profit tax. Now this profit tax is a general tax; it is applicable to all markets.

So, when you are studying particular industries that tax that macro issue is important that may quite be true. Now in money market as you know as I have already told you it does not have a geographical boundary in that sense, and it does not deal with. It may deal with monetary instruments but does not deal only with only one. In automobile market it does not sell only Maruti cars; in automobile market they sell Ford, they sell Hyundai, Toyota. So, the market has submarkets; you can talk about the Ford market or the automobile market in India. You can talk about the Maruti market; again within Maruti there are sub submarkets, because some people like Zen, some people like these other cars, there is x 4, some people like, there can be divisions.

So, what you have essentially is a structure of differentiated market. This is called differentiated products, differentiated markets, which you start learning in microeconomics carries over to industrial economics, and it is very important. Now a money market is a very differentiated market. It just does not deal with one thing called money supply. It may have relevance for money supply, but then various instruments are there. Now why does the money market exist, what is the need? Well, why does the food market exist? We know people need food to eat to survive. So, we go to the market buy food; then we can also go to the luxury market. We do not need that to survive, but we go to luxury market because people have preferences for that. Similarly in money market people have preferences for that. So, why does money market exist? A simple reason is it is part of the financial system.

The financial system consists of two broad markets, the money market and the capital market. Now in the financial economist course you will learn about capital market. In this course you would learn about the money market, okay. So, now the reason why money market exists is also more or less the reason while the entire financial market exists. What are the reasons? At any point of time this is wonderfully explained in professor Bhole's book; I use that book. I have given reference; there are some seven eight copies in the reserve section, Professor Bhole's book explains that very wonderfully. At any point of time there are some deficit spending units.

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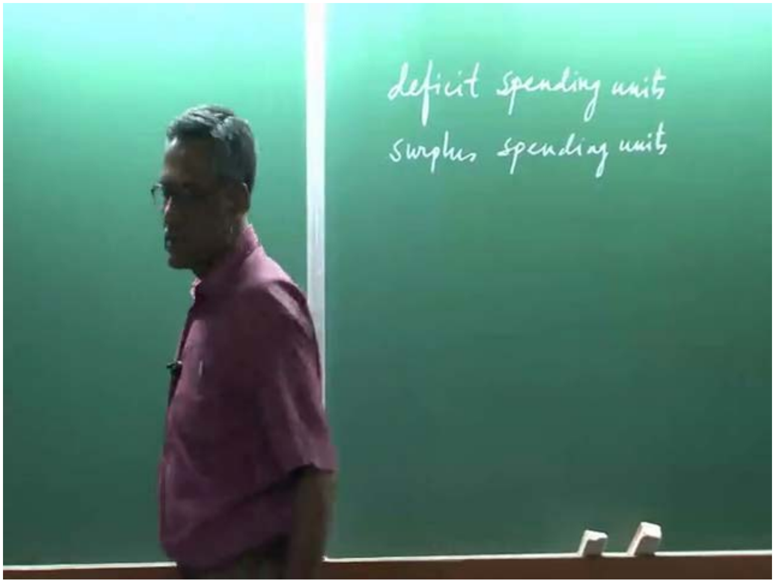

At any point of time there are deficit spending units in a country; at the same time there are some surplus spending units. There are some deficit spending units; there are some surplus spending units. Now these surplus units or spending units you can even include government now in this market. You can even bring in government, although we do not talk about the government part of the economic system. We talk about government, RBI like satellites, like the moon and the stars and the earth is here, and the earth is there economy. But here you can even bring in government because government directly intervenes or interacts with it. So, these deficit spending units and the surplus spending units essentially mean that somebody who is earning more than his expenditure is a surplus spending unit.

It has a surplus which we loosely call savings, and then there are deficit spending units that is they are spending more than what they are earning. At any point of time in an economy you have these two groups. They may be consisting of firms, households as well as government and other institutions, alright. Now what the monetary system or the financial system does that is not the monetary system, the entire financial system does. It is that it connects the two you bring in banks; what do banks do? Banks which is part of the monetary system connects the deficit spending units with the surplus spending units. The surplus spending units take the surplus, put it in the bank, and the bank then takes that surplus and gives it to the deficit spending units, and this whole concept of borrowing and lending interest rate, they all emerge, alright.

Why would you give you a surplus to a deficit spending unit? There is a return to you; that is why you would be willing to do it, who does that work for you banks do that, but just not banks do that. Non-banks also do that, non-banks also do that, alright. The same situation government may fall into government becomes a deficit spending unit; it will have to go to the market and borrow. Sometimes it may go to another institution like RBI and borrow. So, RBI has to have the surplus; economy has to have the surplus, but government can borrow. If economy does not have a surplus if everybody is a deficit spending unit then government cannot borrow, very simple, alright. So, essentially it is a very simple macroeconomic concept that if the income exceeds expenditure your surplus unit, if the income is short of expenditure, expenditures are more you become a deficit unit, then you have a problem.

The problem is solved by the financial system, both the capital market as well as the money market what it does? They have or they are full of what is known as full of various institutions who connects the two capital market and stock market, capital market which we refer to as stock market, what do we do? Somebody sells shares, somebody buys shares, what is it? Somebody who buys the shares have surplus; somebody who sells shares does not have a surplus, it is money like companies, alright, or debentures or bonds or whatever okay.

So, like any country the Indian financial system therefore, I am quoting professor Bhole’s book, the Indian financial system is a complex and closely connected or interlinked system of institutions, and often institutions are there in the background, but the agents do their work on behalf of the institutions like brokers, dealers, even life insurance companies have agents. Life insurance company does not come, you do not go to them, agents do the work; they come to your house. Since I have joined IIT they used to come to my house very regularly, these days they do not. It is an important source of income for the agents; he is a middle man who sells insurance policies to you. Life insurance people do not come; they are like licensed agents they used to come. They used to have a license number, I remember when I used to sign my form, fill it out, I buy an insurance policy.

They had a license number I remember; even in post office I have seen agents; they have a license number when they sell you savings certificates, alright. So, there is a complex or interlinked connected systems of institution agents practices is very important. Even a household has practices, I eat this kind of a food, I sleep at a particular time, I play at a particular time, I watch this kind of movies. There are always practices. Similarly institutions, etcetera, markets have practices like if you go to the farmers market which is held in Kalyanpur, there is a practice of holding that market on a large scale on two or three days of the week only. I think its Tuesday, Friday and Sunday, three days of a week; there is a practice convention, alright.

And therefore, it has various kinds of markets in it, the financial system; the two broad markets are money market and capital market. Then there are submarkets, then there are transactions that go on, there are claims, when I give money to you I have a claim on you. You are supposed to return that money to me; there are liabilities if you borrow money from me you have a liability towards me. I have a claim means automatically it infers that you have a liability. If a bank gives money to you a company bank has a claim on you, and the company has a liability towards the bank.

Similarly when we keep money in the bank we have a claim on the banks that it is my money and this is what you are supposed to do with it, and the bank has a liability towards me. So, claims and liabilities are like flip sides of the coin, two sides of the coin, it is the same thing. So, this is what the financial system is all about the bunch of institutions, agents, practices are there, conventions, etcetera. Markets transactions that goes on various kinds of transactions, secondary market transaction, primary market transaction, all sorts of things, claims and liabilities, and what they are concerned about, there are three broad items they are concerned about the financial system

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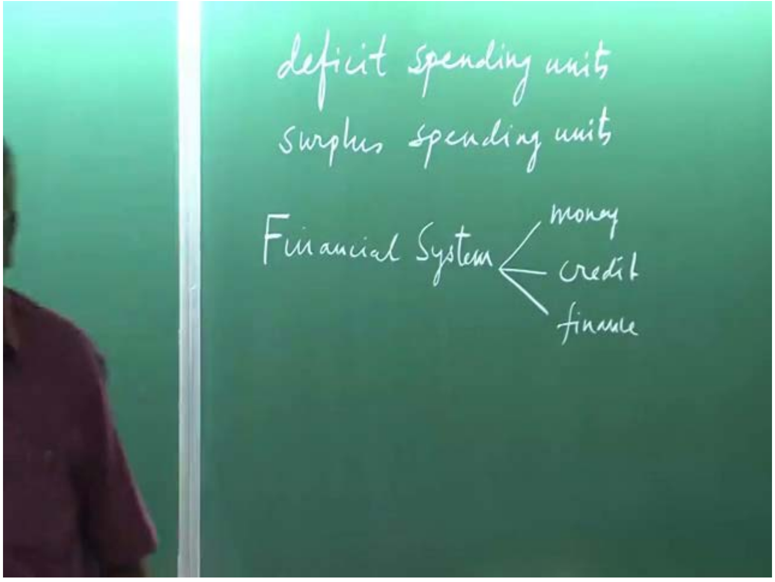

The financial system is concerned about three broad systems; they are concerned about something called money which we are trying to define right from topic one, cash, etcetera. They are concerned about something called credit which you know where it originates, somebody lends money like the banks can lend money to a company credit, and also it is concerned about which you are mostly interested, because that is where your interest lies I have seen, not so much in money market or traditional macroeconomics people like me who have been teaching macro, etcetera, what your interests are to join an investment banker, etcetera, is something called finance. Finance is more than credit what you are interested in; that is why you want to study sir, financial economics course MBA, IME department finance course, can we take that as open elective? This is students often ask me; this is what interests them.

I understand why, because it is a very modern thing and finances existed since corporate sector came into existence, and you know corporate sector what it is. The companies which are called which write ltd at the end which means they are limited liability companies. You know that corporate sector limited liability companies why they are called. It is not the traditional ownership companies and partnership companies we used to have. partner partner friends partner friends partner , shop corporate world; that is where finance came into existence, finance never existed the word before the corporate world was created, and the corporate world was created by basically limited liability companies ltd either private limited or public limited; you probably know that. If you are learning industrial economics you have an industrial economics course this semester. So, you would learn all that; I do not have to teach.

So, the finance came where you have heard of words like shares, debentures, etcetera; it is something different from credit. Credit is a loan basically; you give a loan to somebody, you create a debt, and you get a fixed interest payment against it, and you are supposed to return the money. Shares are very different; you buy a share, the company may not return the money to you for 15 years, 20 years. Now what to do? No problem; you go to the secondary market. When you go to the secondary market like a stock exchange you sell the share. So, you have a secondary market to sell it off, and shares when you buy them you get an annual return called dividends, and sometimes dividends are not a compulsory obligation on the part of companies to gift to you. If company makes good profit then they will share that part of that profit with you as dividend; if company does not make good profit it will not share that.

But there are various kinds of shares, there are preference shares where dividend has to be paid, but still companies can skip dividend for one or two years and pay a backlog, but in normal shares called equity shares, ordinary shares dividend is not compulsory, but if the company makes good profit you get a good dividend, but the preference shares are even if the company makes good profit or the company makes a bad profit you get the same dividend. So, it is you to judge I mean it is up to you to judge whether you want to buy a preference share or ordinary share. So, it goes into that, but companies have a debt structure debt credit, etcetera called debentures where it is something like a loan; you buy a debenture it is like a bond a fixed interest return will be given to you by the company.

So, many people want wish to buy debentures, because it does not depend upon company profit; it is part of the company cost. The company will have to make that interest payment to you; it is not part of not linked to profits then it can fluctuate. So, many people prefer to buy when they invest in corporate companies buy debentures, because buying a debenture connects you with a fixed interest payment like a bond you know bond from the previous topic, the first topic, various kinds of bonds are there. You have any question on this, what I said so far, anything to ask me, nothing. So, this money and credit and finance all has to do with money and why money I would explain that to you; why money market has so much of importance of money, shares, dividends, loans I understand, where is the money coming from? I am coming to that; that is where macro policy is important that part.

So, this is what the financial system does, and what I will do; I will primarily concentrate on the first two money and credit, and later when you go into upper level courses you can study finance, alright, okay. Now these three items although related to each other would differ from each other. So, money refers to this medium of exchange, means of payment. Credit is a loan to be returned with interest, finance is either debt finance obtained through sale of bonds and debentures, and then there are three types of ownership finances, then the equity finance obtained through sale of shares, retained earnings of a corporate company and the owned finances of the owners of a company partnership company a joint firm.

Finances have three types; one is the equity finance, share finance and also corporate companies have debt finance. So, they overlap, credit and finance overlap there; credit is like a debt loan , company through debentures, then the main finance that interests people are people like you is the equity finance, share market , project five ninety eight student . He is trying to look into relationship between exchange rates and share market prices secondary market prices, MSC student fifth year project . So, this is what interests you and of course, there are two other kinds of finances remember retained earnings of a corporate company which is undivided, undistributed profit. It is like a savings of a corporate company undistributed profit; the profit has not been distributed to the shareholders.

Profits have three conceptual parts corporate profits. First part goes as taxes to the government like my income first thing it goes to taxes, then I have my income which I take home. Next part is the dividend income, last is whatever remains residue is the retained earnings, three parts are there, retained earnings and of course, you have owned finances. I am going to open a shop, the other day a fellow was telling me he and his wife tried to open an electric shop. I said sir , owned finances he was talking about not having sufficient. Bank is not giving him a credit; he is a small businessman.

So, what he is trying to do? He is not a private limited public limited company cannot go to Bombay stock market or some other stock market or whatever sell shares. So, what he is trying to do is he utilizes his own finances whatever savings he has. So, that can be another source of finance. Now before I go further I would show only one slide from this topic today, and that will be enough for today's class, then we will meet on Monday.

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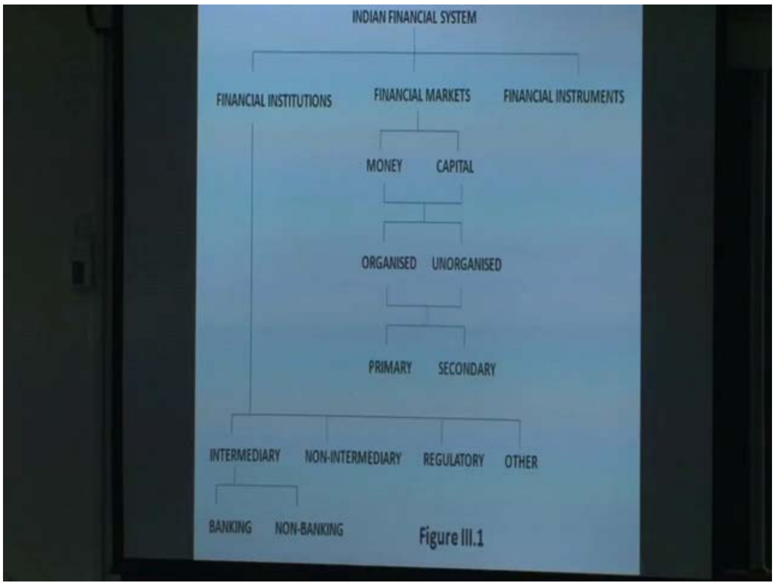

Here it is. This is the standard, and this is Indian financial system diagram. Under Indian financial system what you have three groups you can say, financial institutions, financial markets and financial instruments; I will talk about that later. That is where my focus will be financial instruments like when you are exchanging something between a deficit unit and a surplus unit, there has to be an instrument through which you do; there has to be an institution and the institution uses an instrument. It may be using mutual fund to transfer the money, it may be using shares, it may be using debentures, it may be using a loan, kind of a system credit system various kinds of systems; I need to talk about that just not institutions. So, you have institutions operating in specific markets with specific financial instruments; that is exactly what happens, nothing no big deal, alright, like vegetable seller selling something.

He is operating either individually on part of somebody in a particular market and selling with a particular set of items simple. Now financial markets there are two types as I told you money and capital market and both these money and capital market in India particularly money market not so much of capital market has both an organized sector and an unorganized sector. Organized sector organized sector I will go into the definition of these things. Organized sector is primarily which say is recognized by RBI in India in money market; in case of capital market the organized sector which will be recognized by the securities and exchange board of India SEBI ; learn these abbreviations, they are very important. SEBI headquarter is in Bombay which is also known as the financial capital of India, securities and exchange board of India.

All these things are there institutions, every description are there in that book; that is like a dictionary professor Bhole's book, you can use that. All these things are there in professor Bhole's book; you can buy in 350 rupees, 400 rupees you pay to buy a lifelong asset. It has a dictionary like thing. You can go to noble, order Bhole's book; there is a coauthor, one of his students is now coauthoring because he is too old to edit it. He has retired, and one of his students is coauthoring and does the editing every year reprint , or you can order a book. Everything is written; what is SEBI, when was it founded, what kind of an organization structure it has? Everything he says; what it does what its functions are.

So, you do not have to Google search; you can have it in your room with you, like a dictionary we carry no. You can go to Google and find out in Wikipedia whatever dictionary, whichever is more comfortable. You can keep professor Bhole's book with you only 400 rupees or something. Foreign author books are very expensive 5000, 6000, 7000, it goes, but these are very inexpensive. Then it has an organized sector which is recognized which pays taxes regularly to the government which kind of files in income tax return, which submits its balance sheet to proper authorities as to what the expenses has been, the assets liabilities position, profit and loss account; that is more organized sector. IIT Kanpur gateway unorganized to capital money market, capital market money market unorganized sector accounts maintain ; nobody keeps an account, nobody regulates it.

They do not pay taxes; even if they pay they pay a lump some tax ad hoc income tax officer tax . There is no cash memo that you will get or even shops do not give us cash memo. If you go to race I have seen you get a cash memo; even now in market they do not get a cash memo, old markets of Kanpur. They forget about these shops; even institutions within IIT go to Mahi store or any store or these places where you regularly transact, buy things, they do not give you cash memo. We do not have habit even; that is why people say in India unorganized market is huge massive more than the white market . So, the unorganized market you have particularly in money market and the organized market which is under the regulation of an authority.

In money market the organized market regulator is who? Boss, big boss money market ka, reserve bank of India, and with respect to the capital market the SEBI, remember that, then all these markets have a primary and a secondary section most of these markets. Some of them are more developed than the others; most of them have a primary and a secondary section. Primarily is when you are first time going into the transaction, new shares are being sold which are called IPO’s by companies initial public offer IPO, learn this language, terminologies, I know very little. So, whatever I know I am giving it to you; you will learn much more later. So, IPO’s when companies go for IPO’s initial public offer they advertise in newspaper, etcetera, etcetera, and they go for a public offer if it is a public limited company.

In a private limited company they would not go to the newspaper because it is private; it is a private affair, only 15, 16, 18 people are involved in the company management ownership. Shares are bought; all shares are bought by them. In a public limited company there are millions of share holders depending on the size of the company, how much shares they have sold. So, that is a primary market, but once the shares have been sold then you get into the mood; you have a bad mood suppose and you do not want to sell, you do not want to keep the shares, what will you do? You can go to the secondary market and sell it off. So, initial you have bought and then it goes to him. The same thing happens with some kind of debentures or bonds, debt instruments, same thing. Bond has a five year period, ten year period maturity, longevity of the bond, but you do not want to sell it off after three years.

In case of mutual fund also you can go to the secondary market, but the secondary market is limited to the company, the company itself buys it. Suppose you have bought a mutual fund from UTI it has a locking period for three, years and then you want to sell it, it does not have a secondary market; the secondary market is very limited. What happens is the company buys it back. So, it is a transaction with the company again, but a proper secondary market what happens in the ownership hand keeps on changing. So, a share in its lifetime till the company has called back all those shares, lifetime maybe 20 years, 25 years, 15 years, who knows, 50 years, 30 years, lifetime of a share, oh, god knows how many times it changes hand.

There are very few shares where the initial share holder remains with the share. The other day there was a news, very interesting news, small small news items are there. When facebook started there were a few shareholders only; one of the persons who bought the shares he is a millionaire now, billionaire maybe. Suddenly he decided to sell off all his facebook shares, maybe he wants to do something new, and an amount abnormal amount has come, unbelievable amount, how much money he made by selling that off? Because the prices had gone up in the secondary market , prices have gone up , facebook gives a huge dividend. So, the facebook shares when he sold them off how many units he had I do not know, maybe 5 percent, 10 percent, 20 percent of the total shares initial. He made about 60 million dollars or something just from one transaction, selling off the facebook shares, initial investor of facebook when facebook started; it was just a news item.

So, how do we make money? See this is a typical speculative game what they do is that they buy a share when the company does well, sell it off because the market price goes up. Simple market price reason going up is the demand supply relationship, the demand for those companies shares go up. So, because they give a rich dividend, and they have a good history, good financial standing, people trust them. So, they want to buy them. So, of share face value is 10 dollars, maybe selling in the market at 50 dollars, 60 dollars, 100 dollars; an Indian share which has 10 rupee face value, selling into the market at 250 rupees, 300 rupees, 350 rupees. So, whenever there is an initial public offer. So, you watch out for the news. Some companies selling one lakh share lakh share sell initial public offer ten lakhs .

Every share has a face value of 10 rupees, but then he hears the news that it has been sold at 250 rupees per share. So, people are willing to buy; somebody whose face value is 10 at 253 rupees because they expect to make a huge amount of dividend gain over the course of life of the share; that is why they buy them. So, the company benefits imagine by selling 10 rupees share it goes back to its banks and deposits 250 rupees per share. So, three types of ownership finances namely equity finance obtained through sell of shares, etcetera that happens. So, you have the primary and the secondary market.

Now I come to the last which I will touch upon a little bit financial institutions. There are four kinds of financial institutions, intermediary, non-intermediary, regulatory and other. Intermediary is who intermediates between the savers and the investors which means the surplus spending units and the deficit spending units; it intermediates, can you give an example of intermediary? Banks, but banks are not the only intermediaries in a country like India; there are also non banks who act as intermediaries. You wonder sir, how do they act as non-intermediaries? Non-banks how do they intermediate between savers and investors? Non banks , well they can simply sell bonds, collect the surplus of the economy from the savers, and then invest in companies who needs them.

We all know about ICICI bond, IDBI bond and all that even mutual funds, and I hope you know mutual funds what they are. You know the mutual fund business? Anybody has a problem with mutual funds I am using that as an example often. They are not shares; they are not bonds; they are very peculiar kind of thing, have you heard of mutual funds? Famous companies in India like UTI and every bank or non-bank nearly has a mutual fund scheme.

SBI famous mutual fund was SBI magnum, then you have these other mutual fund schemes from other companies, other banks or non-banks. You know mutual funds? Everybody knows it; if you do not know raise your hand. You do not know exactly; mutual funds are meant for small savers first of all who has little money to save. So, instead of giving the money to the savings account in a bank or a post office they can buy mutual funds. They are like share certificates; every mutual fund like UTI units have a face value 100 rupees, 10 rupees, 200 rupees, whatever.

So, when you buy a mutual fund you buy not like shares it has a premium; you buy exactly at a cost price the face value price. So, suppose 100 rupees the unit value and you buy 10 mutual fund certificates, how much money you put in? 100 into 10, 1000; you are a small saver 1000. UTI says 1000 invest . Now what it does after carrying this money? It goes back and pools all that mutual fund money it has collected by selling; somebody bought 10 units, somebody bought 100 units, somebody may have bought one lakh units. So, one lakh into ten, ten lakhs is a big saver not a small saver maybe a big saver. What it does? Then it takes the pool, and this is called what they call that this is a there is a word there is an expression for that.

Then they look into the debt and the equity market how the prices are which they have been studying throughout, which prices are going up, which companies are doing well, which companies are not doing well. So, they make a kind of a fractional investment in the equity market debt market consisting of various companies. Now these debt markets, equity markets, debt market will give them a promise return on that money to the mutual fund company, and equity market of course is equity linked, uncertainty is there. If the company does well then they get a good dividend; depending upon how much return comes total return both from the debt market and the equity market mutual fund company then announces a return per unit to these investors. So, instead of you going to the stock market and finding out where to invest the money 1000 rupees mutual fund companies do that on your behalf.

So, often if units UTI units, etcetera, you will find the language is written if you buy a UTI unit tomorrow it will say equity linked; that means it is connected to the share market the investment you are going to do, but what they do? They instead of giving them a zero return or a negative return UTI, etcetera, mutual funds put part of the money in the debt market where there is a promise return unless the company is liquidated then I do not know what happens, and a part they put into the equity market, and also they go into the government bonds market where it is also promised return. They can go there; they can invest in government bonds also long term bonds which are called dated government securities. Long term government bonds called dated government securities they can also invest there.

So, this is the game they play simple, and in the process what they do they make some profit probably for themselves, and when the return comes at the end of a financial year the money that is distributed back like a dividend to unit holders mutual fund holders like a dividend it is like whatever income they make then of course, from the gross income they deduct the administrative costs of running the company, there are people hired, there are non-personal costs, overhead costs, electricity bills, ac bills, whatever, whatever, they get a net return value, then they distribute that, alright. So, you have the intermediary institutions. Then you have the non-intermediary; you do not go to the market at all.

So, how do they carry out this helping out the deficit units? They do not go to the savers at all. Well they have usually a source of funds from these big institutions; big institutions may be like the RBI, the world bank, Asian development bank, government of India or RBI, subsidiaries like the IDBI or IDBI subsidiaries like SIDBI, S I D B I they are all subsidiaries of one another. RBI founded IDBI; after IDBI was founded IDBI founded SIDBI, then SIDBI founded god knows how many institutions; this is going on. So, SIDBI goes to the market? No, non intermediary institutions famous ones in India like IDBI and SIDBI, but the distinction is getting blurred a little bit.

So, where do they have the money from and the IDBI says we invest large scale industrial development and my goodness large scale industrial development , iron and steel plant, fertilizer plant, chemical plants, machineries, massive amount of investment, where do they get the money from? Banks cannot give them. So, this is how it is done; they get non market sources they have. So, I will talk about that a little bit if I find time non intermediaries. They do not intermediate; they do not come to you and me, but it is getting blurred because IDBI also sells bonds a little bit. They were famous in the mid 90s, IDBI flexi bond they were called. You were very young then; you would not remember. IDBI flexi bond it became popular very popular; I do not know whether they still have it or not. Some flexibility is there; I do not know what flexibility but it is called IDBI flexi bond .

Then you have regulatory institutions; regulatory institutions I have already said RBI and SEBI, etcetera, two primary regulatory institutions that I will talk about; I will talk about only RBI a little bit, and often there are some regulatory institutions that are developing, who does regulation on behalf of the mother organization like RBI. They divested that responsibility like I cannot teach this entire class. So, I call my tutor and say part of this class like the tutorials, etcetera, you conduct. RBI and institutions do that; they often do that, and you have other institutions they are very fascinating, they are fantastic variety of other institutions. Most famous of them is the credit rating agencies; I will talk about that later other institutions credit rating agencies. Credit rating agencies are names are like CRISIL, etcetera; C R I S I L abbreviation C capital c capital r capital i capital s capital i capital l CRISIL.

Credit rate means it is very interesting; it is like a doctor. When you are ill you go to the doctor and get a health certificate. He takes your pulse, he takes your blood, he does pathological test and gives a report. A company may be asked to go get the credit rating done. Basically it will examine the financial health of the company, and it will give a grade like you get a grade at IIT Kanpur A, A plus and their grades are like triple A, double A, triple B, open foreign news channels. They talk about credit rating of European organizations done by credit rating agencies, and how they are been downgraded, they talk about these days downgrading; that means it was a triple A institution. Now it is only a triple b institution, downgraded them; that means its financial health; however, it examines it is an enormous work number crunching and all that and comes up with a grade for a company.

And I will tell you why these other organizations like credit rating organizations are important because often regulatory organizations like RBI tells or SEBI tells a company, oh you want to sell shares IPO. Get a credit rating done, come back with that report like you are going to join army, okay, get a health check up done. Then I will give you permission to join the army; you know in army there is a compulsory health checking that kind of a thing. So, often the regulation part involves the activities which have developed these other organizations like credit rating agencies, CRISIL, etcetera. This is the basic kind of the summing up or the kind of a summary of the financial system in India. Now I need to talk about more of course, this whole topic is on that, but I hope you have been following me on this part.