

COMPARATIVE STUDY OF INTERNATIONAL MONEY MARKET

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ABSTRACT:

The money market consists of call and notice market, commercial bills market, commercial paper market, treasury bills market, inter-bank market and certificates of deposit market. All these markets are closely interrelated so as to make the money market. It is a wholesale market where a large number of financial assets or instruments are traded. The international money market is governed by the transnational monetary transaction policies of various nations' currencies. The international money market's major responsibility is to handle the currency trading between the countries.

INTRODUCTION

The money market is not one market but is —a collective name given to the various form and institutions that deal with the various grades of near- money. In other words, —it is a network of market that are grouped together because they deal in financial instruments that have a similar function in the economy and are to some degree substitutes from the point of view of holders. Thus the money market consists of call and notice market, commercial bills market, commercial paper market, treasury bills market, inter-bank market and certificates of deposit market. All these markets are closely interrelated so as to make the money market. It is a wholesale market where a large number of financial assets or instruments are traded.

In the financial world, almost every asset is for trade; commodities, stocks, bonds, and even foreign money are constantly bought and sold. Currencies are instruments for paying, but they are also investment products because of the constant fluctuations in their prices. The money market handles the supply and demand of money, which behaves just like other goods and assets. When the supply surpasses the demand, (more liquidity than goods to buy with it) the value of money falls. When the demand grows, the value goes up. However, most countries have their own currency, so they need to exchange local currency for that of trade partners in order to complete commercial and financial operations.

The international money market is governed by the transnational monetary transaction policies of various nations' currencies. The international money market's major responsibility is to handle the currency trading between the countries. This process of trading a country's currency with another one is also known as forex trading.

Unlike share markets, the international money market sees very large funds transfer. The players of the market are not individuals; they are very big financial institutions. The international money market investments are less risky and consequently, the returns obtained from the investments are less too. The best and most popular investment method in the international money market is via money market mutual funds or treasury bills.

Before 1971, gold reserves determined the value of currencies in most countries, including the United States. A strong currency was backed by tons of gold. That year, however,

the U.S. government changed the rules and abolished the dollar's convertibility to gold. The U.S. dollar began to fluctuate freely against other currencies and its value was defined by the market, following the rules of demand and supply. Most currencies gradually started to fluctuate, as well. The international transactions of currency exchange between different countries became known as —international money market. The constant fluctuations became an opportunity for investors, so this market has grown enormously over the years and has become very important.

The developed money market is a well organised market which has the following main features:

1. A Central Bank:

A developed money market has central banks at the top which is the most powerful authority in monetary and banking matter. It controls, regulates and guides the entire money market. It provides liquidity to the money market, as it is the lender of the last resort to the various constituents of the money market.

2. Organised Banking System:

An organised and integrated banking system is the second feature of a developed money market. In fact, it is the pivot around which the whole money market revolves. It is the commercial banks which supply short- term loans, and discount bills of exchange. They form an important link between the borrowers, brokers, discount houses and acceptance houses and the central bank in the money market.

The above two characteristics are found in London money market & New York money market but not in Indian Money Market. Though the condition have improved during the last two decades the country. The presence of only these characteristics doesn't make money market of a country developed & underdeveloped because Australia has both two characteristics but nevertheless their money market is not well developed.

3. Specialised Sub-Markets:

A developed money market consists of a number of specialised sub-markets dealing in various types of credit instruments. There is the call loan market, the bill market, the Treasury bill market, the collateral loan market and the acceptance market, and the foreign exchange market. The larger the number of sub-markets, the more developed is the money market. But the mere number of sub-markets is not enough. What is required is that the various sub-markets should have a number of dealers in each market and the sub-markets should be properly integrated with each other.

4. Existence of Large Near-Money Assets:

A developed money market has a large number of near-money assets of various types such as bills of exchange, promissory notes, treasury bills, securities, bonds, etc. The larger the number of near-money assets, the more developed is the money market.

5. Integrated Interest-Rate Structure:

Another important characteristic of a developed money market is that it has an integrated interest-rate structure. The interest rates prevailing in the various sub-markets are integrated to each other. A change in the bank rate leads to proportional changes in the interest rate prevailing in the sub- markets.

6. Adequate Financial Resources:

A developed money market has easy access to financial sources from both within and outside the country. In fact, such a market attracts adequate funds from both sources, as is the case with the London Money Market.

7. Remittance Facilities:

A developed money market provides cash and cheap remittance facilities for transferring funds from one market to the other. The London Money Market provides such remittance facilities throughout the world.

8. Miscellaneous Factors:

Besides the above noted features, a developed money market is highly influenced by such factors as restrictions on international transactions, crisis, boom, depression, war, political instability, etc.

INSTITUTIONS OF THE MONEY MARKET:

The various financial institutions which deal in short term loans in the money market are its members. They comprise the following types of institutions:

1. Central Bank:

The central bank of the country is the pivot around which the entire money market revolves. It acts as the guardian of the money market and increases or decreases the supply of money and credit in the interest of stability of the economy. It does not itself enter into direct transactions. But controls the money market through variations in the bank rate and open market operations.

2. Commercial Banks:

Commercial banks also deal in short-term loans which they lend to business and trade. They discount bills of exchange and treasury bills, and lend against promissory notes and through advances and overdrafts.

3. Non-bank Financial Intermediaries:

Besides the commercial banks, there are non-bank financial intermediaries which lend short-term funds to borrowers in the money market. Such financial intermediaries are savings banks, investment houses, insurance companies, provident funds, and other financial corporations.

4. Discount Houses and Bill Brokers:

In developed money markets, private companies operate discount houses. The primary function of discount houses is to discount bills on behalf of other. They, in turn, form the commercial banks and acceptance houses. Along-with discount houses, there are bill brokers in the money market who act as intermediaries between borrowers and lenders by discounting bills of exchange at a nominal commission. In underdeveloped money markets, only bill brokers operate.

5. Acceptance Houses:

The institution of acceptance houses developed from the exchange bankers who transferred their headquarters to the London Money Market in the 19th and the early 20th century. They act as agents between exporters and importers and between lender and borrower traders. They accept bills drawn on merchants whose financial standing is not known in order to make the bills negotiable in the London Money Market. By accepting a

trade bill they guarantee the payment of bill at maturity. However, their importance has declined because the commercial banks have undertaken the acceptance business.

All these institutions which comprise the money market do not work in isolation but are interdependent and interrelated with each other.

INSTRUMENTS OF THE MONEY MARKET:

The money market operates through a number of instruments.

1. Promissory Note:

The promissory note is the earliest type of bill. It is a written promise on the part of a businessman today to another a certain sum of money at an agreed future date. Usually, a promissory note falls due for payment after 90 days with three days of grace. A promissory note is drawn by the debtor and has to be accepted by the bank in which the debtor has his account, to be valid. The creditor can get it discounted from his bank till the date of recovery. Promissory notes are rarely used in business these days, except in the USA.

2. Bill of Exchange or Commercial Bills:

Another instrument of the money market is the bill of exchange which is similar to the promissory note, except in that it is drawn by the creditor and accepted by the bank of the debtor. The creditor can discount the bill of exchange either with a broker or a bank. There is also the foreign bill of exchange which becomes due for payment from the date of acceptance. The rest of the procedure is the same as for the internal bill of exchange. Promissory notes and bills of exchange are known as trade bills.

3. Treasury Bill:

But the major instrument of the money markets is the Treasury bill which is issued for varying periods of less than one year. They are issued by the Secretary to the Treasury in England and are payable at the Bank of England. There are also the short-term government securities in the USA which are traded by commercial banks and dealers in securities. In India, the treasury bills are issued by the Government of India at a discount generally between 91 days and 364 days. There are three types of treasury bills in India—91 days, 182 days and 364 days.

4. Call and Notice Money:

There is the call money market in which funds are borrowed and lent for one day. In the notice market, they are borrowed and lent up to 14 days without any collateral security. But deposit receipt is issued to the lender by the borrower who repays the borrowed amount with interest on call. In India, commercial banks and cooperative banks borrow and lend funds in this market but mutual funds and all-India financial institutions participate only as lenders of funds.

5. Inter-bank Term Market:

This market is exclusively for commercial and cooperative banks in India, which borrow and lend funds for a period of over 14 days and up to 90 days without any collateral security at market-determined rates.

6. Certificates of Deposits (CD):

Certificates of deposits are issued by commercial banks at a discount on face value. The discount rate is determined by the market. In India the minimum size of the issue is Rs. 25 lakhs with the minimum subscription of Rs. 5 lakhs. The maturity period is between 3

months and 12 months.

7. Commercial Paper (CP):

Commercial papers are issued by highly rate companies to raise short-term working capital requirements directly from the market instead of borrowing from the banks. CP is a promise by the borrowing company to repay the load at a specified date, normally for a period of 3 months to 6 months. This instrument is very popular in the USA, UK, Japan, Australia and a number of other countries. It has been introduced in India in January 1990.

WORKING OF THE MONEY MARKET

The money market consisting of commercial banks, discount houses, bill brokers, acceptance houses, non-bank financial houses and the central bank operates through the bills, securities, treasury bills, government securities and call loans of various types. As the money market consists of varied types of institutions dealing in different types of instruments, it operates through a number of sub-markets.

First, the money market operates through the call loan market. It has been defined as —a market for marginal funds, for temporarily unemployed or unemployable funds. In this market the commercial banks use their un-sued funds to lend for very short periods to bill brokers and dealers in stock exchange. In developed countries, even big corporations lend their dividends before distribution to earn interest for a very short period.

The central bank also lends to commercial bank is for very short periods. Such loans are mostly for a week even for a day or a night and can be recalled at a very short notice. That is why a short period loan is known as call loan or call money market. Bill brokers and stock brokers who borrow such funds use them to discount or purchase bills or stocks.

Such funds are borrowed at the —call rate which is generally one per cent below the bank rate. But this rate varies with the volume of funds lent by the bank. If the brokers are asked to pay off loans immediately, then they are forced to get funds from large corporations and even from the central bank at high interest rate.

Second, the money market also operates through the bill market. The bill market is the short-period loan market. In this market, loans are made available to businessmen and the government by the commercial banks, discount houses and brokers. The instruments of credit are the promissory notes.

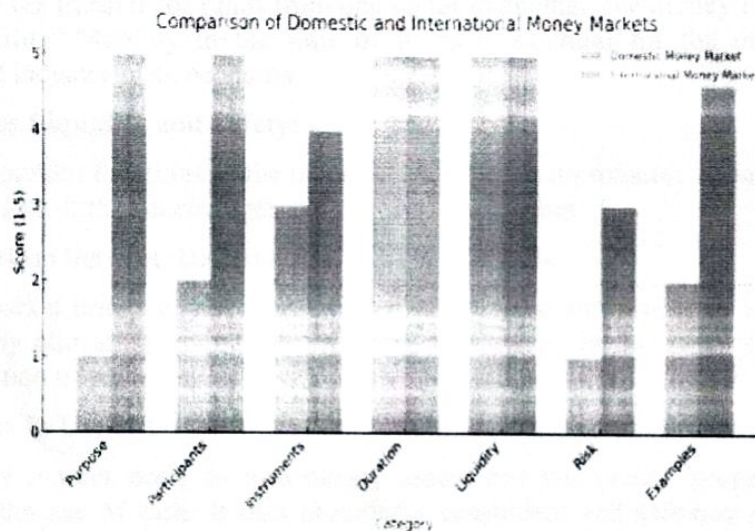
The commercial banks discount bills of exchange, lend against promissory notes or through advances or overdrafts to the business community. Similarly, the discount houses and bills brokers lend to businessmen by discounting their bills of exchange before they mature within 90 days. On the other hand, government borrows through the treasury bills from the commercial banks and non-bank financial institutions. Third, the money market operator through the collateral loan market for a short period.

The commercial banks lend to brokers and discount houses against collateral bonds, stock, securities, etc. In case of need, commercial banks themselves borrow from the large banks and the central bank on the basis of collateral securities.

Finally, the other important sub-market through which the money market operates is the acceptance market. The merchant bankers accept bills drawn on domestic and foreign traders whose financial standing is not known. When they accept a domestic or foreign trade bill, they guarantee its payment at maturity. In recent years, the commercial banks have also started the acceptance business.

Table: Comparison between Domestic and International Money Markets

Aspect	Domestic Money Market	International Money Market
Purpose	Supports short-term domestic borrowing and lending	Facilitates cross-border borrowing and lending
Participants	Local banks, corporations, governments	Multinational banks, corporations, governments, investors
Instruments	Treasury bills, commercial papers, certificates of deposit	Eurodollar deposits, international commercial papers
Duration	Short-term (up to 1 year)	Short-term (up to 1 year)
Liquidity	High	High
Risk	Low (local economic risk)	Moderate (exchange rate and political risks)
Examples	India's Money Market, US Treasury Bills	Eurodollar market, London Interbank Market (LIBOR)



Functions of a Money Market

A money market performs a number of functions in an economy.

1. Provides Funds:

It provides short-term funds to the public and private institutions needing such financing for their working capital requirements. It is done by discounting trade bills through commercial banks, discount houses, brokers and acceptance houses. Thus the money market helps the development of commerce, industry and trade within and outside the country.

2. Use of Surplus Funds:

It provides an opportunity to banks and other institutions to use their surplus funds profitably for a short period. These institutions include not only commercial banks and other financial institutions but also large non-financial business corporations, states and local governments.

3. No Need to Borrow from Banks:

The existence of a developed money market removes the necessity of borrowing by the

commercial banks from the central bank. If the former find their reserves short of cash requirements they can call in some of their loans from the money market. The commercial banks prefer to recall their loans rather than borrow from the central banks at a higher rate of interests.

4. Helps Government:

The money market helps the government in borrowing short-term funds at low interest rates on the basis of treasury bills. On the other hand, if the government were to issue paper money or borrow from the central bank. It would lead to inflationary pressures in the economy.

5. Helps in Monetary Policy:

A well-developed money market helps in the successful implementation of the monetary policies of the central bank. It is through the money market that the central banks are in a position to control the banking system and thereby influence commerce and industry.

6. Helps in Financial Mobility:

By facilitating the transfer for funds from one sector to another, the money market helps in financial mobility. Mobility in the flow of funds is essential for the development of commerce and industry in an economy.

7. Promotes Liquidity and Safety:

One of the important functions of the money market is that it promotes liquidity and safety of financial assets. It thus encourages savings and investments.

8. Equilibrium between Demand and Supply of Funds:

The money market brings equilibrium between the demand and supply of loanable funds. This it does by allocating saving into investment channels. In this way, it also helps in rational allocation of resources.

9. Economy in Use of Cash:

As the money market deals in near-money assets and not money proper, it helps in economizing the use of cash. It thus provides a convenient and safe way of transferring funds from one place to another, thereby immensely helping commerce and industry.

CONCLUSION

The international money market (IMM) plays a crucial role in the functioning of the global financial system, facilitating the exchange of short-term capital across national borders. This comparative study of international money markets highlights the diverse structures, operations, and regulatory frameworks that influence their performance and stability. The international money market is an essential segment of the global financial system, where participants, including governments, financial institutions, and corporations, engage in the borrowing and lending of short-term funds. The significance of this market lies in its ability to provide liquidity, help manage short-term funding needs, and maintain stability across global economies. The comparative analysis of the international money markets reveals both the similarities and differences in their functioning across various economies.

At the heart of the international money market lies the concept of liquidity, which is critical for ensuring that funds are available when needed, thereby promoting stability in global finance. The liquidity in money markets allows banks and other financial institutions to manage their day-to-day operations and meet their financial obligations. In many countries, the money market consists of a variety of instruments such as Treasury bills, commercial

papers, certificates of deposit, repurchase agreements, and interbank loans. The market is typically highly regulated, with central banks in most economies playing an essential role in controlling interest rates and ensuring liquidity through various monetary tools. These tools include open market operations, discount rates, and reserve requirements, which all aim to control inflation and stabilize currency values.

A key aspect of international money markets is the role of central banks, whose monetary policies significantly impact the functioning of these markets. In advanced economies, such as the United States, the Eurozone, and Japan, the central banks have highly developed mechanisms for managing the money supply and ensuring market stability. The Federal Reserve (U.S.), the European Central Bank (ECB), and the Bank of Japan, for example, conduct open market operations to buy and sell short-term government securities, which directly influence the short-term interest rates in their respective money markets. These central banks also engage in currency interventions when necessary, particularly in times of market stress, to stabilize exchange rates and prevent volatility in the international money markets.

The comparison between developed and emerging market money markets reveals notable differences in the functioning of these markets. In developed economies, the money market is relatively stable, well-regulated, and highly integrated into the global financial system. For instance, in the United States, the market is dominated by short-term government debt, with highly liquid assets traded in a low-risk environment. In contrast, money markets in emerging markets tend to be more fragmented and less liquid. These markets often face challenges such as political instability, inflationary pressures, and currency risks, which can increase the cost of borrowing and create volatility in short-term financing. For example, money markets in countries such as Brazil, India, and Russia may offer higher returns to compensate for the higher risks, but these returns are often offset by currency depreciation and the potential for capital flight.

A crucial element in this comparative study is the role of exchange rate risk in international money markets. Exchange rates directly impact the cost of borrowing in foreign currencies and the risk associated with international transactions. In emerging markets, exchange rate fluctuations can significantly affect the interest rates in the money market, making it more challenging for businesses and governments to access affordable credit. As global markets become more interconnected, exchange rate risk remains a key concern for participants in international money markets, especially in times of financial crises or geopolitical tensions. The fluctuation of exchange rates can cause distortions in the international money market, and central banks must often intervene to stabilize the currency, impacting the overall functioning of these markets.

Another important aspect highlighted in this study is the influence of global financial institutions, such as the International Monetary Fund (IMF) and the World Bank, on the functioning of international money markets. These institutions play a vital role in providing liquidity to countries facing financial difficulties and assisting in the stabilization of exchange rates. The IMF, for instance, provides financial support to countries facing balance of payments problems and helps to stabilize their currency by offering short-term loans. The World Bank, on the other hand, provides long-term financing for development projects, which can indirectly impact the stability of the money market by fostering economic growth and reducing financial imbalances.

The impact of global financial crises on international money markets is another important point in the comparative analysis. The 2008 global financial crisis, for example, had a profound effect on international money markets, leading to a significant contraction in

liquidity, a sharp rise in interest rates, and an overall decline in market confidence. In response, central banks worldwide implemented unconventional monetary policies, such as quantitative easing and zero interest rate policies, to inject liquidity into the financial system and restore stability to the money markets. This episode demonstrated the interconnectedness of global financial markets and the importance of coordinated policy responses in managing systemic risks. The aftermath of the crisis also led to an increased emphasis on the regulation of the money markets to prevent similar disruptions in the future.

In recent years, the rise of digital currencies and fintech innovations has added a new layer of complexity to the international money market. Cryptocurrencies, such as Bitcoin and Ethereum, have become a popular alternative to traditional money market instruments, offering investors a hedge against traditional financial market risks. However, the volatility of cryptocurrencies, coupled with concerns about their regulatory environment, has raised questions about their long-term role in the global financial system. Digital currencies have the potential to reshape the international money market by providing more efficient, borderless, and transparent alternatives to traditional money market instruments. However, their adoption will depend on the development of regulatory frameworks and the resolution of key issues related to security, scalability, and market liquidity.

The comparative study of the international money markets also underscores the importance of financial regulations in ensuring the stability and efficiency of these markets. In developed economies, stringent regulatory frameworks have been established to monitor the functioning of money markets and mitigate risks associated with market volatility. Regulatory bodies such as the Securities and Exchange Commission (SEC) in the U.S. and the Financial Conduct Authority (FCA) in the U.K. play a key role in enforcing rules that ensure transparency, fairness, and accountability in money market transactions. Conversely, in emerging markets, regulatory frameworks may be less robust, resulting in a higher degree of market risk and instability.

In conclusion, the international money market is a critical component of the global financial system, serving as a primary mechanism for short-term capital movement and liquidity management. The comparative study of these markets across different economies reveals both commonalities and disparities in their operations. While developed economies tend to have well-regulated, highly liquid money markets, emerging markets face greater challenges due to political instability, exchange rate risks, and insufficient regulatory frameworks. The ongoing evolution of global financial markets, particularly in response to technological advances and financial crises, suggests that international money markets will continue to play an essential role in shaping the future of global finance. However, their stability will depend on effective regulation, coordination among central banks, and the ability to adapt to new challenges posed by technological advancements and market disruptions. Therefore, continuous evaluation and improvement of the regulatory frameworks governing international money markets will be necessary to ensure their resilience in the face of global economic challenges.

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