



## Unit-2

### Primary Market

The primary market is where new securities are issued and sold for the first time by companies, governments, or other organizations to raise capital. One common process in the primary market is the "floating of a new issue," which refers to the initial offering of securities to investors. Here's how it works and the role of the primary market:

**1. Floating New Issue:** When a company or organization decides to raise capital by issuing new securities, such as stocks or bonds, it engages in a process known as a new issue or initial public offering (IPO). In the case of stocks, the company offers a portion of its ownership (shares) to the public for the first time. For bonds, the issuer issues new debt securities to investors.

#### 2. Role of Primary Market:

- Capital Formation: The primary market facilitates the raising of capital by companies and governments to fund their operations, expansion plans, or infrastructure projects. By issuing new securities, these entities can access funding from investors.

- Price Discovery: The process of floating a new issue involves determining the price at which the securities will be offered to investors. This price is typically determined through a combination of market demand, valuation analysis, and underwriting by investment banks.

- Investor Participation: The primary market provides an opportunity for investors to participate in the initial offering of securities. Investors can subscribe to the new issue by purchasing shares or bonds directly from the issuer or through underwriters.

- Liquidity Enhancement: By creating a market for new securities, the primary market enhances liquidity by providing investors with the opportunity to buy and sell these securities. This liquidity allows investors to enter and exit positions as needed.

- Underwriting and Advisory Services: Investment banks and underwriters play a crucial role in the primary market by assisting issuers with the issuance process. They provide underwriting services, pricing advice, structuring assistance, and distribution support to ensure the success of the new issue.

- Regulatory Compliance: The primary market operates under regulatory oversight to ensure transparency, fairness, and investor protection. Issuers must comply with securities laws and regulations governing the issuance and sale of securities in the primary market.



Overall, the primary market serves as a vital platform for companies, governments, and investors to raise capital, allocate resources efficiently, and participate in the growth of the economy and efficiency of financial markets.