

Primary Market Example: Meaning, Function, Benefits & Limitations

Primary market refers to an issue of new securities such as issues of shares, bonds or debentures by companies for the very first time to the investors in a marketplace. IPO by Paytm, Facebook IPO, and Issue of Bond is the example for primary market. In this marketplace, businesses acquire funds for growth, expansion, etc. It is also known as the new issue market. **What is Primary Market?**

A [primary market](#) is a source of new securities. Often on an exchange, it's where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities. The new securities are issued and sold for the first time in the primary market. In this market, when a company or government wants to raise money, they issue new stocks or bonds. Investors buy these new securities directly from the issuer, enabling the company or government to raise funds that can be used for business activities or projects.

In the primary market, companies or governments sell their securities directly to investors, who purchase them for the first time. The primary market plays an important role in the economy as it provides companies and governments with a way to raise funds, and investors with an opportunity to invest in new securities.

Primary Market Example

Initial Public Offerings (IPOs) and government [bond](#) issuances are highly important to the primary market because they help firms and governments to raise funds to enhance growth and development. All these landmark events, such as Paytm and Facebook's IPOs or RBI's bond issuances, reveal the importance of the primary market for driving economic growth and investment opportunities.

Initial Public Offering (IPO) by Paytm

Paytm is an Indian digital payments company. It listed its IPO in November 2021 for raising funds for growth as well as to pay off its debt. The value of the company came at ₹18,300 crores, making it one of the largest IPOs in India. The company comprising fresh issue and offer by some investors for sale.

Paytm went through the teething stage with its IPO. It was quite successful in terms of raising massive funds from that IPO. All this further solidified its financial position, as it supported plans for expansion. The IPO has focused on potential and brought into public attention Paytm, turning it into an event in the Indian financial market.

Facebook IPO (United States)

Facebook, also called Meta, has its offering going back to May 2012 when it floated one of the most highly anticipated global events in the primary market. The company issued 421.2 million shares at \$38 each and collected \$16 billion. Money collected accelerated growth for the company and supported investment in infrastructure as well as important acquisitions like Instagram.

The IPO marked the history of the tech industry; it portrayed that Facebook had absolute dominance over other social media portals. Not only was it going to set the world leader by establishing itself but also mark the benchmark for others who wanted to enter the [stock market](#) as a technological company. It underlined how important social media was in this digital age.

Government Bonds Issued by RBI (India)

The RBI issues government bonds in the primary market to fund public infrastructure and national development. Such bonds can be bought by institutional and retail investors, thus giving a risk-free channel of investment with simultaneous country growth.

The RBI, for instance, issued ₹10,000 crores of government bonds at fixed interest rates for funding road and railway projects in 2023. It further assisted investors in making safe investments while the government established large infrastructures by the funds that were generated.

Primary Market vs Secondary Market

The financial market has two main aspects, the [primary and the secondary markets](#), which serve different purposes. The former is where new securities originate, while the latter allows for trading of existing securities. This distinction between the two helps investors to navigate effectively through this ecosystem.

Aspect	Primary Market	Secondary Market
Definition	Deals with the issuance of new securities.	Deals with the trading of existing securities.
Purpose	Helps companies raise funds directly from investors.	Provides liquidity by allowing investors to trade.
Participants	Issuers (companies) and investors.	Investors only (buyers and sellers).
Pricing	Securities are issued at fixed or determined prices.	Prices fluctuate based on market demand and supply.
Intermediaries	Involves underwriters or investment banks.	Involves brokers and stock exchanges.

Function of Primary Market

The primary market is essential in linking savings to productive investments. It ensures that the economy grows and develops economically. The companies can raise funds directly, thus ensuring transparency and efficient capital formation. The major [functions of the primary market](#) are summarized below:

1. **Mobilization of Savings:** A bridge is built between people who have [savings](#) and other surplus funds with the institutions needing capital through a primary market. It motivates people to save their money by investing in shares or bonds instead of lying idle in bank accounts.
2. **Capital Formation:** Capital formation is the increase in the stock of real capital in an economy, such as buildings, machinery, and technology. The primary market ensures that savings collected from investors are used to build such assets. When issued securities in a primary market by companies, all the raised fund goes towards the improvement of infrastructure and investing advance assets.
3. **Direct Source of Capital:** Primary markets enable a firm to approach the investors without an intermediary of brokers. Therefore, it would ensure that the issuers are receiving their funds without requiring an intermediary as they necessarily have to communicate directly, and this makes it all efficient with faster generation of funds.
4. **Price Discovery:** Through different pricing mechanisms like fixed pricing, book building, or auctions in the primary market, the value of securities is determined. Prices established in the primary market will be used to trade the securities on the secondary market. This process makes sure that securities are not under- or over-valued.
5. **Ensuring Transparency and Investor Protection:** Primary market regulation mainly pertains to the aspect of fairness and investor protection. Regulatory bodies like the [Securities and Exchange Board of India](#) monitor every activity in connection with the issue of securities. The building of investor confidence goes along with transparency.

Benefits and Limitations of Primary Market

The financial ecosystem can benefit much from the primary market as it enables direct raising of funds by businesses from investors. Its advantages include stimulating [economic growth](#) and investment opportunities, but with a number of drawbacks, such as costs and complex procedures.

Aspect	Benefits of Primary Market	Limitations of Primary Market
Fundraising	Helps companies raise funds for growth and expansion.	High costs for underwriting, marketing, and compliance.
Economic Impact	Fuels infrastructure projects and industrial development.	Complex procedures due to legal and regulatory requirements.
Investment Opportunities	Offers opportunities to invest in new ventures.	Higher risk due to lack of historical performance data.
Price Transparency	Ensures fair pricing through fixed pricing or book-building.	Limited access for retail investors due to high demand for IPOs.

Encouraging Savings	Promotes converting savings into productive investments.	
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Primary Market FAQs

1. What are the example of primary market?

The examples for a primary market would be an IPO like Paytm IPO, follow-on public offerings and issuance of government bonds.

2. What are the differences between primary and secondary markets?

Primary market involves issuing new securities by the companies which are issued directly by the company whereas secondary market deals with the trading of already existing securities amongst investors.

3. What are the functions of the primary market?

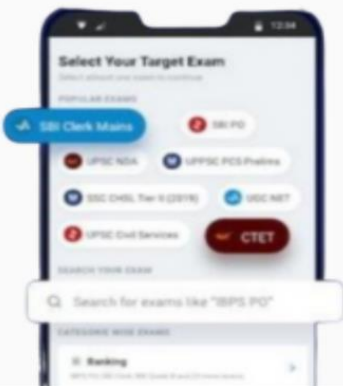
The primary market assists in capital formation, public investment, transparency, and promotes economic growth.

4. Can a person invest in the primary market?

Yes, a person can invest in the primary market by subscribing to an IPO, government bonds, or other newly issued securities.

5. Give an example of a primary and secondary market transaction?

In the primary market, a company sells shares through an IPO. In the secondary market, investors trade these shares on stock exchanges like NSE or BSE.



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