International Journal of Advance and Applied Research (IJAAR) **ISSN – 2347-7075**
Impact Factor – 7.328
Peer Reviewed **Bi-Monthly** **Vol.9 No.1 Sept – Oct 2021**

The role of Mutual funds in development of Indian economy

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Abstract

Mutual funds play a pivotal role in the development of India's economy by channelling savings into productive investments, fostering capital market growth, and facilitating financial inclusion. They offer a diversified investment option for individuals, encouraging participation in the financial markets and fostering a culture of long-term investing. Additionally, mutual funds contribute to the efficient allocation of capital, aiding in the growth of businesses and infrastructure projects, thus stimulating economic development. the development of the Indian economy has been a subject of considerable interest and analysis, particularly in recent decades as the country has emerged as one of the world's fastest-growing major economies. Mutual funds have played acting as vehicles for channelling investments into various sectors and companies, thereby facilitating economic growth and development.

Introduction.

A mutual fund is an investment pool that is professionally managed by a fund manager .It is a trust that pools funds from several investors with similar investment goals and uses those funds to purchase stocks, bonds, money market instruments, and or other securities. And by computing a scheme's "Net Asset Value," or NAV, the income or gains from this collective investment are dispersed proportionately among the investors following the deduction of any applicable costs and levies. In short, the money that many investors pool together is what constitutes a Mutual Fun. Mutual funds play a crucial role in mobilizing savings from retail and institutional investors and channelling them into productive investments. By pooling funds from a large number of investors, mutual funds provide access to a diversified portfolio of securities, including stocks, bonds, and other financial instruments. This facilitates capital formation by directing funds towards sectors and companies with growth potential, thereby stimulating economic activity and job creation.

Objective of Research paper.

To ascertain the actual position of mutual fund in Indian economy.

1. To understand the contribution of Mutual fund in development of Indian economic.

2. To know the various schemes under Mutual fund.

Research Methodology

The precise methods or approaches used to locate, pick, process, and evaluate data on a subject are known as research procedures or techniques. The methodology section of a research paper gives the reader the opportunity to assess the overall validity and reliability of the study. The nature of this research paper is descriptive in the research paper researcher has used secondary data which collected from various books , websites research journal etc.

Benefits Mutual Fund

- To reduce risk, investors can spread their money across a variety of securities, including debt and equity.
- Investing in mutual funds does not require any upfront fees.
- Investors are fully transparent about the various financial investments they make.
  Additionally, based on their needs,
- they can withdraw their investment fully or in part.
- Investors receive professional advice and management for their money.
- Switching between funds is made flexible by mutual funds.
- Investing In securities allows investors to receive tax benefits.

Types of Mutual fund Schemes

Equity funds: These funds make their principal investments in company stocks and shares. Market capitalization (large-cap, mid-cap, small-cap), investment style (growth, value, blend), and industry focus (such as technology, healthcare, banking) are further classifications for equity funds.

Debt Funds: These funds make investments in money market instruments, corporate and government bonds, debentures, and other fixed-income securities. Those looking for steady returns at a lower risk than equity funds should consider them.

Hybrid or balanced funds: These funds invest in a variety of debt and equity instruments in order to generate income as well as capital gains. They are appropriate for investors with a moderate tolerance for risk and provide diversification across asset classes.

Index funds: The goal of index funds is to mimic the performance of a particular stock market index, like the Sensex or Nifty 50. They provide lower expense ratio passive investment management, investing in the same proportion as the underlying index constituents.

Sectoral Funds: Sectoral funds concentrate on particular economic sectors, like infrastructure, healthcare, or technology. They are appropriate for investors who have a bullish view on a particular sector and offer concentrated exposure to a particular industry.

Liquid fund: Investments in short-term money market instruments with a maximum maturity of 91 days are made through liquid funds. Because of their high capital stability and liquidity, they are appropriate for investors with short investment horizons fund

Gift fund : Government securities (G-secs) with a range of maturities are the investments made by gilt funds. Since they invest in sovereign instruments, they have little credit risk, but they do have interest rate risk. Gilt funds are a good option for investors looking for returns that are steady and safe.

The role of Mutual fund in Indian Economy.

Mobilization of Savings: Money market instruments, bonds, and stocks are among the securities in a diversified portfolio that mutual funds purchase using money from institutional and individual investors. This mobilization of savings gives governments and companies a crucial source of funding, which supports economic development and expansion.

Capital Formation: Mutual funds aid in capital formation by allocating investments to different economic sectors. They offer capital to companies so they can innovate, take on new projects, and grow their operations, which boosts the economy and generates jobs.

Financial Inclusion: By providing investment opportunities to a broad spectrum of investors, including those in rural and semi-urban areas, mutual funds have played a critical role in promoting financial inclusion in India. Mutual funds have made investing easier and more convenient through programs like digital platforms and systematic investment plans (SIPs), enabling people to take part in the capital markets and profit from economic expansion.

Risk Diversification: distributing their investments among several asset classes, industries, and regions, investors can diversify their investment portfolios through mutual funds. By distributing investments among a range of securities, diversification lowers risk and improves portfolio stability for investors. Mutual funds promote greater investor participation in the capital markets by reducing risk, which boosts liquidity and efficiency.

Market Liquidity and Efficiency: consistently creating demand for securities, mutual. funds significantly contribute to improving market liquidity and efficiency. Mutual funds enable smoother market functioning and price discovery mechanisms through their buying and selling activities. By facilitating the buying and selling of securities by investors and the raising of capital by businesses, this liquidity increases the capital markets' overall efficiency.

Corporate Governance and Transparency: As proponents of better corporate governance procedures and transparency, mutual funds generally engage in active ownership of the businesses in which they make investments. Mutual funds support accountability and ethical business practices by interacting with company management and exercising voting rights. This, in turn, supports the economy's long-term viability.

Conclusion

mutual funds have emerged as important drivers of economic development in India by mobilizing savings, promoting financial inclusion, diversifying risk, enhancing market liquidity and efficiency, and advocating for good corporate governance practices. As the Indian economy continues to grow, mutual funds are expected to play an increasingly vital role in channelling investments towards sectors and companies with growth potential, thereby fuelling further economic expansion and prosperity and also, mutual funds have emerged as important catalysts for the development of the Indian economy, facilitating capital formation, promoting financial inclusion, and enhancing market efficiency. By providing investors with access to diversified investment opportunities and efficient portfolio management, mutual funds play a vital role in driving economic growth and creating wealth for a broader spectrum of stakeholders.

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