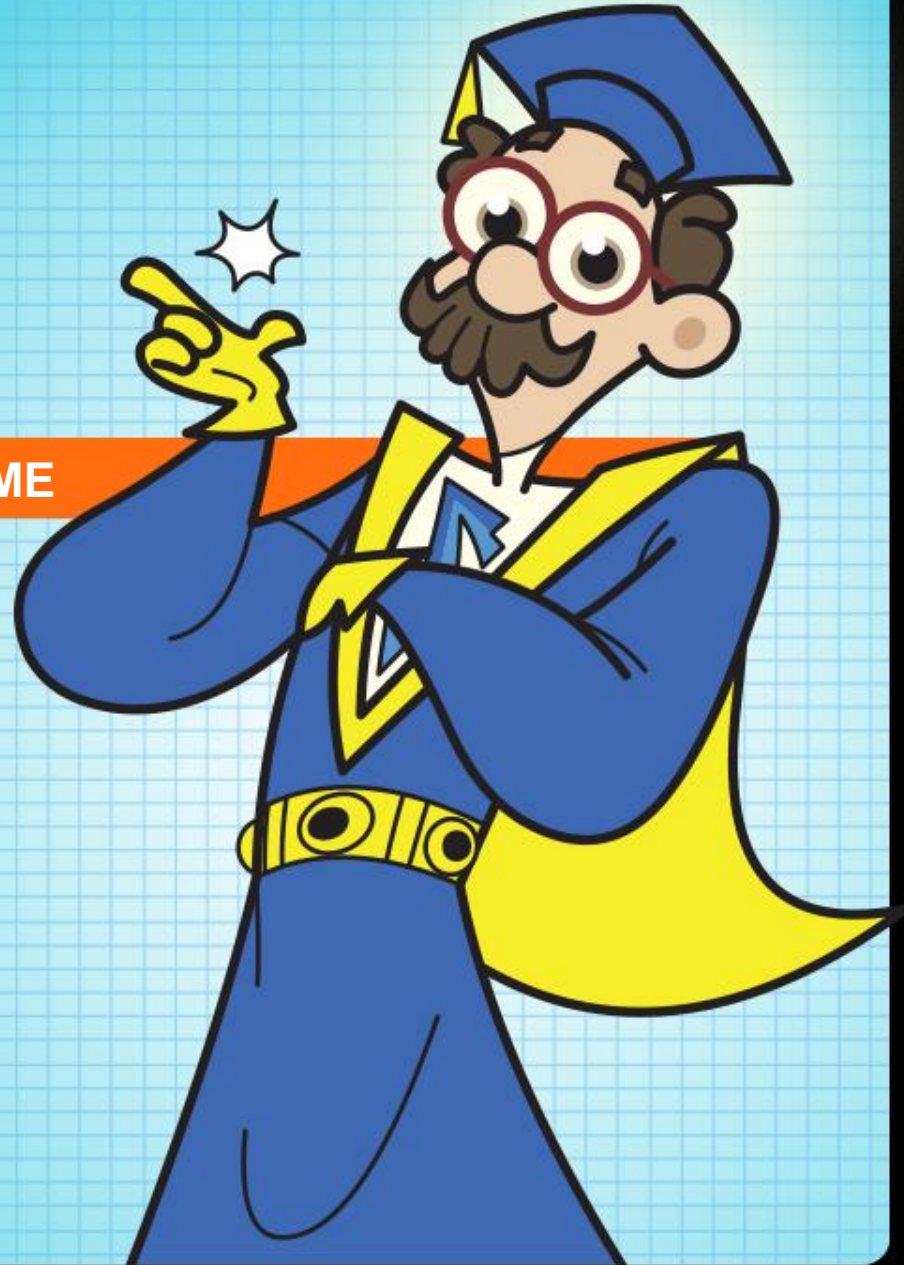


MARKET STABILISATION SCHEME



vEcoSys

**Understanding MSS
(Market Stabilisation Scheme) and
how it helps to control inflation?**



MARKET STABILISATION SCHEME



When there is too much of liquidity of “money” in the market, it can cause inflation. Central Bank then intervene by releasing MSS bonds to control inflation.



MARKET STABILISATION SCHEME

So what are MSS bonds and how do they help in controlling inflation. MSS bonds control inflation by sucking up the excess liquidity. For the uninitiated all this sounds like Greek and Latin. Let's try and understand through a story.



MARKET STABILISATION SCHEME

Imagine the situation when summer holidays start. Its fun times for the kids and they hardly stay at home. From the start of the day till the end of the day they are out playing, watching movies, going out with friends, eating out, shopping etc etc.

Only by the end of the day they return to sleep



MARKET STABILISATION SCHEME



And moreover when they are out of the house they are spending their pocket money.



MARKET STABILISATION SCHEME

Imagine a city where thousands of kids have invaded the streets, the restaurants, the movie halls, the game parks, the shopping malls etc.

Seeing this huge surge in demand, the owners/management of malls, multiplexes, restaurants, game parks raise their prices.

This is quite natural as price is directly proportional to demand.



MARKET STABILISATION SCHEME

So there are too many kids in the market and hence prices start to rise.

In a sense these “kids’ are like the excess liquidity in the markets. Excess liquidity too causes prices to go up just as excess kids cause prices to increase due to excess demand for the same supply.



MARKET STABILISATION SCHEME

Now let's imagine all the parents get together and express their displeasure about their kids being out of the house all the time. They start putting together plans that would make their kids stay longer at home.



They hit upon an idea!



MARKET STABILISATION SCHEME

They print a large number of pamphlets in which they write a message for all the kids.

The message says, “ Kids if you agree to spend more time at home we will lift all restrictions on watching television, listening to music, reading books, eating chocolates. You can also call your friends at home and play any indoor games including video games.”



MARKET STABILISATION SCHEME



Then they distribute these pamphlets in the market where the kids are having fun.



MARKET STABILISATION SCHEME

When the kids read the message it pleases them. They start thinking of home as a much better place as compared to be out in the hot sun. They think of their air-conditioned homes, the pampering that their parents would do, the fun that they could have with friends at home, the watching of TV and surfing of the internet without any restrictions. The house with no restrictions and lots of love is the home they now want to go to



MARKET STABILISATION SCHEME

All of a sudden the kids start moving into their homes and start emptying the market. The mall owners, theatre owners, restaurant owners and others are aghast at the sight of the disappearing kids. They try their best and coax them to stay on and spend in the market. They start offering discounts and lower their prices as well.



MARKET STABILISATION SCHEME

But the kids are not willing to stay back any more and simply head for their homes.



MARKET STABILISATION SCHEME

After the kids disappear the demand falls and the various merchants have no option but to further drop prices so that there is some off-take at least.

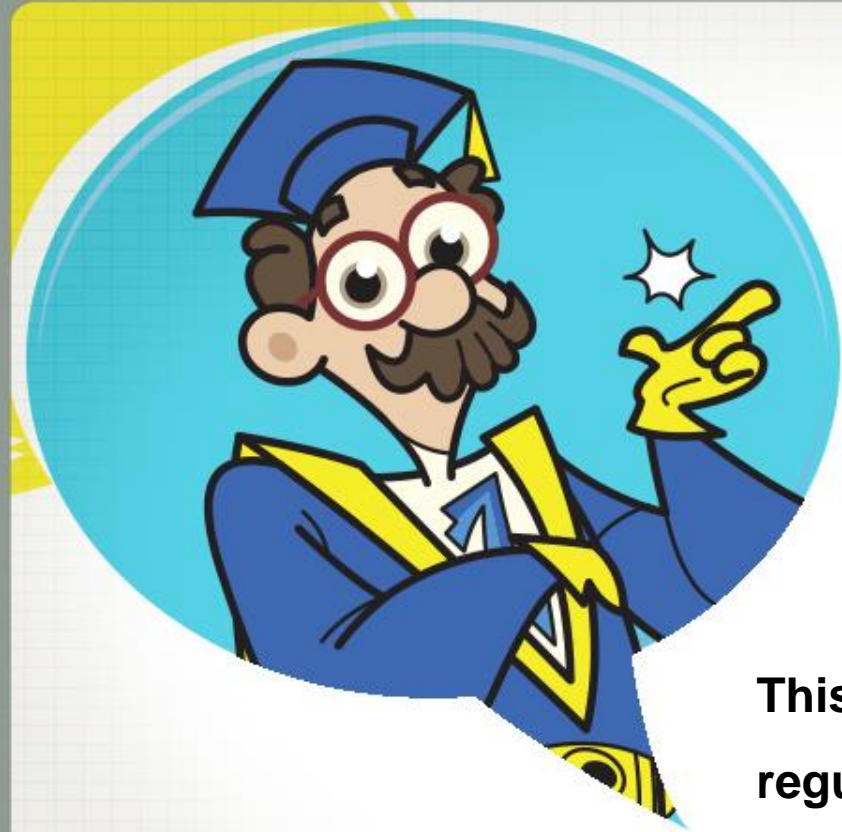


MARKET STABILISATION SCHEME

Now in this example the pamphlets that were printed by the parents and released in the market are like the MSS bonds that are released by the central banks and just like the kids were sucked into their homes by the favorable promises made in the pamphlets in the same way the MSS bonds too suck up liquidity by making people invest in these bonds due to favorable returns that are promised in these bonds



MARKET STABILISATION SCHEME

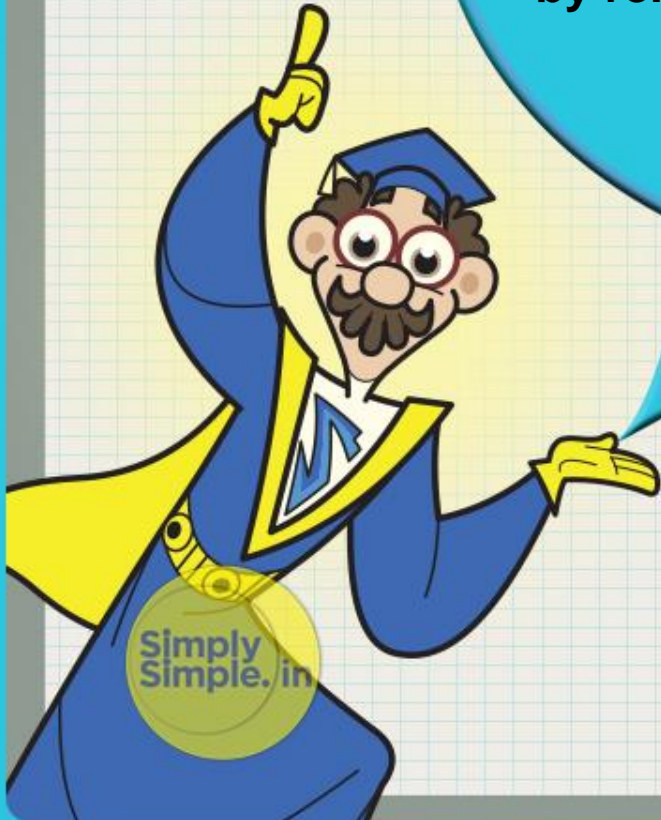


This is how MSS bonds are able to regulate liquidity in the market / economy which leads to controlling the prices of goods and services and brings down inflation.



MARKET STABILISATION SCHEME

I hope you can now imagine the concept of controlling the inflation by releasing MSS bonds.



MARKET STABILISATION SCHEME

I will be glad to receive your feedback on this lesson to understand if there any gaps.

Your feedback will help me improve my lessons going forward. Also if you wish to demystify any other concepts, please write to me about them.



Thinking of Investment

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