Remembering-based Questions

Q.1. What is meant by Financial Market? *[CBSE 2012]*

Ans. It refers to the market that creates and exchanges financial assets.

Q.2. What is meant by 'Financial Assets'?

Ans. It refers to the financial instruments or securities, *e.g.*, shares, debentures, treasury bills, commercial papers, etc.

Q.3. Give the meaning of 'Money Market'.

Ans. It refers to that market where transactions in short-term securities are made.

Q.4. What is meant by 'Capital Market'? *[CBSE 2012, 2013]*

Ans. It refers to the market where transactions in long-term securities are made.

Q.5. What are the components of Capital Market?

Ans.

i. Primary Market and
ii. Secondary Market.

Q.6. What is meant by 'Primary Market'?

Ans. It refers to the market in which securities are sold for the first time for collecting long-term capital.

Q.7. What is meant by 'Secondary Market'?

Ans. It refers to the market which deals in previously issued securities.

Q.8. Name the Index of Bombay Stock Exchange.

Ans. It is known as SENSEX.

Q.9. Name the Index of National Stock Exchange.

Ans. It is known as NIFTY.

Q.10. State any one function of Stock-Exchange. *[CBSE 2012]*

Ans. Providing liquidity and marketability to existing securities.

Q.11. What is the full name of SEBI?

Ans. Securities and Exchange Board of India.

[3 marks]

Q.1. Define Capital Market. State the two parts of capital market.

Ans. Capital Market: It refers to that market where transactions in long-term securities are made.

i. **Primary Market:** It refers to that market in which securities are sold for the first time for collecting long-term capital.
ii. **Secondary Market:** It refers to that market in which existing securities are bought and sold.

[4/5 marks]

Q.1. State the functions of Financial Market.

Ans. Functions of Financial Market Following are its main functions:

i. **Mobilisation of savings and their Channelisation into more Productive Uses:** Financial market gives impetus to the savings of the people. This market takes the uselessly lying finance in the form of cash to places where it is really needed. Many financial instruments are made available for transferring finance from one side to the other side. The investors can invest in any of these instruments according to their wish.
ii. **Facilitates Price Discovery:** The price of any good or service is determined by the forces of demand and supply. Like goods and services, the investors also try to discover the price of their securities. The financial market is helpful to the investors in giving them proper price.
iii. **Provides Liquidity to Financial Assets:** This is a market where the buyers and the sellers of all the securities are available all the times. This is the reason that it provides liquidity to securities. It means that the investors can invest their money, whenever they desire, in securities through the medium of financial market. They can also convert their investment into money whenever they so desire.
iv. **Reduces the cost of Transactions:** Various types of information is needed while buying and selling securities. Much time and money is spent in obtaining it. The financial market makes available every type of information without spending any money. In this way, the financial market reduces the cost of transactions.

Q.2. Explain any four functions of 'Financial Market'. *[CBSE 2012, Sample Paper 2015]*

Ans. Refer to Points (*i*) to (*iv*) of Q. 1 above.

Q.3. Explain the various money market instruments.

Ans. Following is the brief description of money market instruments:

i. **Treasury Bill:** Treasury Bill means that short term instrument which the Central Government issues to the financial institutions or the general public in order to meet its short-term financial needs. Usually their maturity period is 14 days, 91 days, 182 days and 364 days. Treasury bills are of highly liquid nature because the RBI is ever-ready to buy them on discount. They are issued at less than the face value while the payment is made at the face value.
ii. **Commercial Paper (CP):** Commercial Papers are those unsecured Promissory Notes which are issued by well-reputed companies. The minimum face value of a commercial paper is five lakh rupees. It is used to meet the demand of a short-term seasonal need and the requirement of working capital. They are issued for a period of 15 days to 12 months.
iii. **Call Money or Call Loans:** Call loan means that loan document for which the payment can be made at a short notice either by the borrower or the lender. Under this, the maturity period of the loan is between 1 and 15 days. The lowest amount of this instrument is rupees 10 crore. They are generally used by the banks for the following reasons:
    a. To control the Statutory Liquidity Ratio (SLR).
    b. To invest cash, more than what is needed, for short term.
iv. **Certificate of Deposit (CD):** Certificate of deposit is a negotiable instrument which can be transferred after a certain period by an endorsement. It is issued by the Scheduled Commercial Banks and the Indian Financial Institutions like IDBI, IFCI, ICICI, SIDBI and EXIM Bank. They are issued for a period ranging between 91 days and one year. They are issued on discount. An investor can transfer the certificates of deposits after a lapse of 45 days by an endorsement to any person.
v. **Commercial Bill:** It is a negotiable instrument which can be easily transferred. It is used to finance the credit sales. The seller (drawer) draws the bill and the buyer (drawee) accepts it. The buyer honours the bill on the due date. If the seller needs money before the due date, he can get the bill discounted from the bank. It is a short-term instrument, generally, issued for a period of 90 days.

Q.4. State any four methods of floating new issue in the Primary Market?
[CBSE 2016]

Ans. Following are the methods of raising capital in the primary market:

i. **Public Issue:** Under this method, the company issues a prospectus and invites the general public to purchase shares or debentures.
ii. **Offer for Sale:** Under this method, firstly the new securities are offered to an intermediary (generally firms of stock brokers) at a fixed price. They further resell the same to the general public at a higher price. The advantage of doing this is that the issuing company feels free from the tedious work of making a public issue.
iii. **Private Placement:** Under this method, the company sells securities to the big financial institutions or brokers instead of selling them to the general public. They, in turn, sell these securities to the selected clients at a higher price. This

method is preferred as it is a cheaper method of raising funds as compared to a public issue.

iv. **Right Issue:** This method is used by those companies who have already issued their shares. When an existing company issues new shares, first of all it invites its existing shareholders. This issue is called the right issue. In this case, the shareholder has the right either to accept the offer for himself or assign a part or all of his rights in favour of another.

Q.5. State any four functions of Stock Exchange. *[CBSE 2012, 2013, 2016]*

Ans. The main functions performed by Stock Exchange are as follows:

i. **Providing Liquidity and Marketability to Existing Securities:** Stock Exchange is a market place where previously issued securities are traded. Various types of securities are traded here on regular basis. Whenever required, investor can invest his money through this market into securities and can reconvert this investment into cash. Availability of ready market for sale and purchase of securities increase their marketability and enhance the liquidity in investment of money.

ii. **Pricing of Securities:** A stock exchange provides platform to deal in securities. The forces of demand and supply work freely in the stock exchange. In this way, prices of securities are determined.

iii. **Safety of Transactions:** Stock Exchanges are organised markets. They fully protect the interest of investors. Each stock exchange has its own laws and bye-laws. Each member of stock exchange has to follow them and any member found violating them, his membership is cancelled.

iv. **Contributes to Economic Growth:** Stock Exchange provides liquidity to securities. This gives the investor a double benefit—first, the benefit of the change in the market price of securities can be taken advantage of, and secondly, in case of need for money they can be sold at the existing market price at any time. These advantages provided by the share market encourage the people to invest their money in securities. In this way, people's money gets invested in industries and economic development becomes possible.

Q.6. Outline the functions of SEBI.

Ans. The functions of SEBI can be divided into three parts:

I. **Protective Functions:** Following are the protective functions of SEBI:

   i. To check unfair trade practices (such as, to supply misleading statements to cheat the investors) in connection with security market.

   ii. To check insiders trading in securities. [Insider trading means the buying and selling of securities by those persons (Directors, Promoters, etc.) who have some secret information about the company and who wish to take the advantage of this secret information.)

   iii. To provide education relating to dealing in securities to the investors.

   iv. To promote code of conduct relating to security market.

II. **Regulatory Functions:** The following are the regulatory functions of the SEBI:
   i. To regulate the business being done in the share market.
   ii. To register brokers, sub-brokers, transfer agents, merchant banks, underwriters etc.
   iii. To register and regulate the credit rating agency.
   iv. To register and regulate the venture capital fund.
   v. To carry out audit of share markets.

III. **Developmental Functions:** The following are the developmental functions of the SEBI:
   i. To impart training to the intermediaries. (Intermediaries include share brokers, Subbrokers, Share Transfer Agents, Issue Registrars, Merchant Bankers, Portfolio Managers, etc.)
   ii. To encourage self-regulating organisations.
   iii. To carry on research work.
   iv. To publish different kinds of information for the convenience of all the parties operating in the capital market.

Q.7. Explain any five Regulatory functions of Securities and Exchange Board of India.

[CBSE 2010]

Ans. Refer to Point-II [(*i*) to (*v*)] of Q. 6 above.