

CBSE Test Paper - 05
Chapter - 10 Financial Markets

1. When a trade bill is accepted by a commercial bank, it is known as a ____ (1)
 - a. Call money
 - b. Certificate of deposit
 - c. Commercial Bill
 - d. None of these
2. Money market deals in _____ (1)
 - a. Long term Securities
 - b. Short term Securities
 - c. None of these
 - d. Medium term securities
3. What type of instruments are traded in a Money Market? (1)
 - a. Call money
 - b. Commercial bills
 - c. All of these
 - d. Treasury bills
4. Clearing and settlement operations of NSE are carried out by: (1)
 - a. CDSL
 - b. SBI
 - c. NSDL
 - d. NSCCL
5. In which market the purchase and sale of existing securities? (1)
6. which function does financial market perform, "By linking the savers and the investors by mobilising funds between them" (1)
7. Mr. Sanjay Nehra was the Chairman of Taran Bank. The bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their shares was also steadily rising. The bank was about to announce taking over the 'Vena Bank.' Mr. Sanjay Nehra knew that the share price of Taran

Bank would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of his rich friends Sudhir and asked him to invest Rs.5 crores in shares of his bank promising him the capital gains.

As expected, the share prices went up by 40% and the market price of Sudhir's shares was now Rs.7 crores. He earned a profit of Rs.2 crores. He gave Rs.1 crore to Mr. Sanjay Nehra and kept Rs.1 crore with himself. On regular inspection and by conducting enquiries of the brokers involved, the Securities and Exchange Board of India (SEBI) was able to detect this irregularity. The SEBI imposed a heavy penalty on Mr. Sanjay Nehra.

By quoting the lines from the above paragraph, identify and state any two functions that were performed by SEBI in the above case. **(1)**

8. Name the money market instrument in which an instrument of short-term borrowings by the Government of India maturing in less than one year. **(1)**
9. "Unicon Securities Pvt. Ltd" was established to deal in securities. It was registered as a stock broker with National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) to trade in securities listed at these exchanges. It is also a depository participant with CDSL and NSDL. In the first three years, it developed its business successfully. After that the composition of Board of Directors changed. Some customers complained to the customer care centre of the company that shares purchased by them and for which the payment has been duly made, were not transferred to their D'mat Accounts by "Unicon securities Pvt. Ltd". The executive of customer care centre promised the aggrieved customers that their shares will be transferred to their respective D'mat Accounts very soon. But the company delayed the matter and didn't transfer the shares of the customers to their D'mat Accounts. This eroded investors confidence and multiplied their grievances.
 - i. Identify the step of trading procedure in a stock exchange which has not been followed by "Unicon Securities Pvt. Ltd".
 - ii. Name the Apex statutory body of capital market to whom customer can complain to redress their grievances.
 - iii. Define the term money market and mention it's features also **(3)**
10. Incorporated in 1990, Raju Dairy Ltd., is one of the leading manufacturers and

marketers of dairy-based branded foods in India. In the initial years, its operations were restricted only to the collection and distribution of milk. But, over the years it has gained a reasonable market share by offering a diverse range of dairy-based products including fresh milk, flavoured yogurt, ice creams, buttermilk, cheese, ghee, milk powders etc. In order to raise capital to finance its expansion plans, Raju Dairy Ltd. has decided to approach capital market through a mix of Offer for sale of Rs.4 crore shares and a public issue of Rs.2 crore shares.

In context of the above case:

- a. Name and explain the segment of capital market being approached by the company.
- b. Identify the two methods of floatation used by the company to raise the required capital. Give one difference between them. **(3)**

11. Distinguish between Capital Market and Money Market. **(4)**
12. “A stock market index is a barometer of market behaviours”. Why? **(4)**
13. The electronic book entry form of holding and transferring securities has eliminated the problems of theft and forgery. Discuss the concept indicated in the given statement. **(4)**
14. Explain the two main segments of the NSE. **(6)**
15. Explain the advantages of the electronic trading system or screen-based trading? **(6)**

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Answer

1. c. Commercial Bill

Explanation:

Commercial bills : A bills of exchange issued by a company (a trade bill) or accepted by a bank (a bank bill), as opposed to a Treasury bill, which is issued by the government.

2. b. Short term Securities

Explanation:

The money market is where financial instruments with high liquidity and very short maturities are traded. It is used by participants as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year.

3. c. All of these

Explanation:

TYPES OF MONEY MARKET INSTRUMENTS

- Treasury Bills. Treasury bills (T-bills) are short-term notes issued by the U.S. government.
- Federal Agency Notes.
- Short-Term Tax Exempts.
- Certificates of Deposit.
- Commercial Paper.
- Bankers' Acceptances.
- Repurchase Agreements.

4. d. NSCCL

Explanation:

The clearing and settlement operations of NSE are carried out by NSCCL. NSCCL (National Securities Clearing Corporation Ltd.) was incorporated in August, 1995 and it commenced its clearing operations for NSE in April, 1996.

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5. Secondary market is the market in which the purchase and sale of existing securities.
 6. Allocative function of financial market.
 7. Securities Exchange Board of India (SEBI) was established in 1988 to regulate the functions of securities market. SEBI promotes orderly development in the stock market. The two functions performed by SEBI in the given case are stated below:
 - a. Regulatory function is being performed by SEBI: "On regular inspection and by conducting inquiries of the brokers involved."
 - b. Protective function is performed by SEBI: "The SEBI imposed a heavy penalty on Mr. Sanjay Nehra."
 8. "Treasury bill" is the instrument by which an instrument of short-term borrowings by the Government of India maturing in less than one year.
 9.
 - a. The step of trading procedure in a stock exchange which has not been followed by "Unicon Securities Pvt. Ltd" is settlement i.e. the delivery of shares through the D'mat Account of the broker to D'mat account of the investors.
 - b. The Securities and Exchange Board of India (SEBI) is the Apex statutory body of capital market to whom customer can complain to redress their grievances.
 - c. Money market is a market for short term funds meant for dealing in monetary assets whose period of maturity is less than one year. Features of money market are
 - i. Market for short term
 - ii. No fixed geographical location
 - iii. Major institutions involved in money market are RBI Commercial Banks, LIC, GIC etc.
 - iv. Common instruments of money market are call money, treasury bill, CP, CD, commercial bill etc.
 10.
 - a. Primary market is the segment of capital market being approached by the company. It is also known as the new issue market as the securities are issued for the first time by the companies through this market. In order to raise capital in the form of equity, a company can sell its shares to members of the public. When shares are sold directly to the public, this is done via the primary market route.

The sale of securities in the primary market is usually done through an investment bank or finance syndicate of securities dealers.

- b. The two methods of floatation used by the company to raise the required capital are issue through prospectus and Offer for sale.

In case of the issue through the prospectus, the company approaches the members of the general public directly by issuing a prospectus whereas in case of Offer for sale, the company approaches members of the general public indirectly through intermediaries like issuing houses, stockbrokers etc.

11. Difference between capital market and money market:

Basis	Capital Market	Money Market
Nature	A section of financial market where long term securities are issued and traded.	A segment of the financial market where lending and borrowing of short term securities are done.
Participants	Main participants are: <ul style="list-style-type: none">• Financial Institutions• Banks• Foreign investors• Corporate houses.	Main participants are : <ul style="list-style-type: none">• Reserve Bank of India• Commercial banks• Mutual funds• Financial Institutions• Corporate houses.
Risk	Capital market is more risky.	Money market is less risky.
Liquidity	In comparison to the money market instruments, capital market securities are less liquid.	Money market instruments are highly liquid.

12. A stock exchange is a reliable barometer to measure the economic condition of a country. Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror which reflects the economic conditions of a country.

13. Dematerialisation of securities

Your investments in shares and debentures can be held in electronic or dematerialised form in a depository. Depository is an entity which holds securities (shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors.

Dematerialisation is comparable to keeping your money in a bank account. In demat form, your physical share certificates are replaced by electronic book entries; purchase of shares are reflected as credits in your demat account and sales are reflected as debits.

14. The exchange provides trading in the following two segments:

- i. **Capital Market Segment:** This segment refers to the trading platform for a wide range of fixed income securities like central government securities, bonds issued by public sector undertakings, zero coupon bonds, treasury bills, commercial papers, certificates of deposit, mutual funds, corporate debentures etc.
- ii. **Whole Sale Debt Market Segment:** The main role of this segment is to provide a trading platform for a wide range of fixed income securities. It includes:
 - Treasury Bill.
 - Commercial Paper.
 - Central Government Securities.
 - Certificate of deposit.
 - Mutual Funds.
 - Bonds issued by public sector undertakings.
 - Debentures.

15. The advantages are:

- i. It is convenient: When it comes to online trading, you only need to open a trading account via the internet and you're good to go. You're not bound by time and place as long as you have an internet connection. Hence, online trading is convenient and accessible from anywhere with limited hassle. It also saves time.
- ii. It is cheaper: In online stock trading, the stockbroker fee which you will have to pay is lower when compared to the commission charged by the traditional

method. If you trade in a sufficiently large volume of stocks, it is possible for you to be able to negotiate your broker's fees.

- iii. You can monitor your investments anytime: Online trading allows you to buy or sell shares according to your convenience. It offers advanced interfaces and the ability for investors to see how their money is performing throughout the day. You can use your phone or your computer to evaluate your profit or loss.
- iv. It almost eliminates the middleman: Online trading allows you to trade with virtually no direct broker communication. Apart from reducing the overall trading cost, this benefit also makes the trading hassle free, making this service much more lucrative.
- v. Faster Transactions: Online banking is fast and efficient. Funds can be transferred between accounts almost instantly, especially if the two accounts are held at the same banking institution. All it takes to be able to buy or sell stocks is a single click of the mouse. Through this, a quicker exchange can be made which may also ensure quicker earnings.