



BUSINESS STUDIES

BOOKS - SHREE RADHEY PUBLICATION

BUSINESS STUDIES (HINGLISH)

FINANCIAL MARKET

Case Studies

1. A company require RS 2 crore for inventory, payment of wages, salaries, maintaining bank

balance, etc.

(i) Suggest which financial market company may approach and why?

(ii) State the instruments to raise finance in that market.



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2. Ganesh Steel Ltd.' is a large and creditworthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decides to invest in new hi-

tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money-market.

(a) Name and explain the money-market instrument the company can use for the above purpose.

(b) What is the duration for which the company can get funds through this instrument?

(c) State any other purpose for which this instrument can be used.



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3. A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares.

While analysing the issue, finance manager found that flotation costs of the issue would

be high and company is already in liquidity crunch. Company deemed it proper to depend on market instruments for about six months.

(i) Identify the method of flotation of capital, mentioned above.

(ii) Besides above shares issue method, mention two other methods.

(iii) Use of what kind of instrument will be appropriate for the money market.



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4. 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 of 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.

(1) Identify the step of trading procedure in a stock exchange which has not been followed by 'Unicon Securities Pvt. Ltd...'

(2) Name the Apex statutory body of capital market to whom customer can complain to redress their grievances.



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5. ABC Ltd. issued prospectus for the subscription of its shares for RS. 500 crores in 2008. The issue was oversubscribed by 20 times. The company issued shares to all the applicants on pro-rata basis. Later SEBI inspected the prospectus and found some

misleading statement about the management of the company in it. SEBI imposed a penalty of RS. 5 crores and banned its three executive directors for dealing in securities market for three years.

Identify the function and its type performed by SEBI in the above case.



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6. Charu is a chartered accountant in Parkash Ltd. During the course of meeting with

directors, she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.

(1) Identify the type of malpractice used by Charu.

(2) Name the authority which regulates such behaviour. Write any three other functions of this authority.



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Exercise

1. Explain any four functions of financial market.

Or

"A financial market is for the creation and exchange of financial assets". Explain any two its functions.



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2. 'Money market is essentially a market for short-term funds'. In the light of this statement. State any three features of money market.



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3. Name the market where companies issue new securities.



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4. What are the different ways of issuing securities in primary market?



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5. Why is secondary market considered as market for second hand securities?



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6. In secondary market sale of securities takes place between investors only then how does this market contribute for capital formation?



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7. Name any two instruments of money market.



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8. Name the market which provides short term finance.



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9. What is meant by capital market?



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10. Name the two segments of capital market.



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11. Name any two national level stock exchanges.



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12. Name the common instruments of capital market.



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13. What do you mean by the term of 'going public'?



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14. Explain the term 'water the equity'



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15. How many regional stock exchanges are there in India? Name the oldest one.



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16. Give the full form of SEBI.



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17. Enumerate the objectives of SEBI.



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18. What do you mean by 'bridge financing'?



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19. Which money market security is also known as zero coupon bond?



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20. 'Money market instruments are more liquid than capital market instruments'. Comment.



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21. 'SEBI is the watchdog of security market'.

Comment.



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22. 'Stock market imparts liquidity to investment'. Comment.



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23. What function does financial market perform?



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24. 'Stock market quotations contribute to better allocation of capital and promoting the habits of savings and investments'. Explain.



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25. Explain the capital market reforms in India.



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Hots Higher Order Thinking Skills And Case Studies

1. Supriya's grandmother who was unwell, called her and gave her a gift packet. Supriya opened the packet and saw many crumpled share certificates inside. Her grandmother told her that they had been left behind by her late

grandfather.

As no trading is now done in physical form, Supriya wants to know the process by adopting which she is in a position to deal these certificates. (a) Identify and state the process.

(b) Also give reasons to Supriya why dealing with shares in physical form had been stopped.



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2. Reshu's father has gifted her shares of a large cement company, with which he had been working. The securities were in physical form. She already has a bank account and does not possess any other forms of securities.

She wished to sell the shares and approached a registered broker for the purpose. Mention one mandatory detail which she will have to provide with the broker.



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3. Sudha Ltd. Has sold 1 lakh equity shares of RS 10 each at RS 12 per share to an investement banker, who offered them to the public at RS 20 each. Identify the method of floatation.



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4. Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares.



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5. Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.

(1) Identify the type of malpractices used by

Charu.

(2) Name the authority which regulates such behaviour. Write any three other functions of this authority.



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6. The Director of Pico Limited decided to declare bonus issue of equity shares to the shareholders in its Annual General Meeting. Immediately one of the Director purchases 20,000 shares from market @ 30 per share

and sold them @ 100 share as bonus issue was declared and made capital gain from it.

(i) Name the practice used by the Director taking the benefits of internal information.

(ii) How does SEBI prohibit such practices?



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7. Name the financial instrument which may be used in the following situations:

(i) A company needs funds to meet floatation cost in order to issue equity shares in the

market.

(ii) The instrument that is issued during the period of tight liquidity when the deposit growth of bank is slow but demand for credit is high.

(iii) These are also known as zero coupon bonds and are issued by RBI on the behalf of central goverment.

(iv) It is used by one bank having surplus funds to meet the funds requirements of another bank facing shortage of funds.



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8. Bandhu Limited is a real estate company which was formed in 1960. In about 55 years of its existence, the company has managed to carve out a niche for itself in this sector. In order to establish itself in India, the company decided to list its securities on BES, in order to raise money through India market.

State the functions performed by SEBI that make investors comfortable and secured in dealing with Bandhu Lte.



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9. Identify the markets highlighted in following statements:

(i) This market directly contributes to capital market.

(ii) This market deals in instrument whose maturity upto one year.

(iii) It deals in medium and long term securities.

(iv) It is also known as Stock Exchange and deals in sale and purchase of previously issued securities.

(v) It requires less investment as value of securities is generally low.



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10. Dinesh has 100 equity shares of as company. He wants to sell 500 of these. Which market should he approach?



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11. 'Money market instruments are more liquid than capital market instruments". Comment.



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12. Who issues the Treasury Bill?



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13. Who determines the prices of new IPO?



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14. How is the price of securities determined in the secondary market?



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15. What is the minimum amount of Treasury Bill?



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16. What is dematerialisation (demat)?



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17. Bhuvan got a chance to buy shares in the ratio of 1:1 from ABC company. What is this type of issue called? Explain any other two ways of issue share under primary market.



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18. What is REPO rate? How can it result in lowering the ratio of interest on loans?



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19. What is Badla?



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20. Shares are given in the ratio of 1:1. What is this type of issue?



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21. Who is the borrower of call money?



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22. Who provides protection and guidelines to the investors?



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23. What do you mean by penny stock?



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24. What do you mean by Bourse?



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25. R' Limited is a real estate company which was formed in 1950. In about 56 years of its existence the company has managed out from

a niche of itself in this sector. Lately this sector is witnessing a boom due to the fact that the Indian economy is on the rise. The income of middle class are rising. More people can afford to buy homes for themselves due to easy availability of loans and accompanying tax concessions.

To expand its business in India and abroad the company is weighing various options to raise money through equity offerings in India. Whether to tap equity or debt market whether to raise the necessary finance from money market or capital market. It is also planning to

list itself in New York Stock Exchange to raise money through ADR.

To make its offering attractive it is planning to offer lots of financial plans, products to its stakeholders and investors and also explain its listing at NSE after complying with the regulations of SEBI.

(a) What are the regulations of SEBI that company must comply with?

(b) How does the SEBI exercise control over 'R' limited in the interest of investors?

(c) What do you mean by a stock index? How is it calculated?

(d) What conclusions can you draw from the various movements of NSE stock indices?

(e) What factors affect the movement of stock indices? Elaborate on the nature of these factors.

What relationship do you see between the movement of indices in World Market and NSE indices?



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26. Few years ago, there were many malpractices, unfair trade practices and frauds and scams were taking place in Stock Exchange. All these affected in investor's confidence, faith and trust in Stock Exchange. The Government of India decided to set up a separate body for this purpose who was given control of stock exchange. This separated ownership and control of stock exchange.

(i) Name the concept which separates the ownership and control of stock exchange.

Name the body set up by the government of

India to contract the stock exchange.

(iii) State the objectives of that regulating body.



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27. A Stock Exchange is a place where financial assets can be converted into cash. It helps in fixing the market value of securities and helps to know the economic growth of any country.

(i) State the functions of state exchange

refused in above parta.

(ii) State any other two functions of stock Exchange.



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28. Saqib Ltd. is a large creditwothy company operating in the Kashmir Valley. It is an export oriented unit, dealing in exclusive embroidered shawals. The floods in the Valley have created many problems for the company. Many craftsamen and workers have been

dislocated and raw material has been destroyed. The firm is therefore, unable to get an uninterrupted supply of raw material, and the duration of the production cycle has also increased. To add to the problems of the organisation, the suppliers of raw material who were earlier. The company is facing a liquidity crisis. The CEO of the company feels that taking a bank loan is the only option with the company to meet its short term shortage of cash.

As a finance manager of the company name

and explain the alternative to bank borrowing that the company can use to resolve the crisis.



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Multiple Choice Questions

1. Primary and secondary markets

- A. Compete with each other
- B. Complement each other
- C. Function independently

D. Control each other

Answer: (b)



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2. Total number of Stock Exchange in India are

A. 20

B. 21

C. 22

D. 23

Answer: (c)



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3. The settlement cycle in NSE is

A. (a) $T + 5$

B. (b) $T + 3$

C. (c) $T + 2$

D. (d) $T + 1$

Answer: (c)



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4. National Stock Exchange of India was recognised as Stock Exchange in the year

A. 1992

B. 1993

C. 1994

D. 1995

Answer: (a)



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5. NSE commenced futures trading in the year

A. 1999

B. 2000

C. 2001

D. 2002

Answer: (b)



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6. Clearing and settlement operations of NSC
is carried out by

A. NSDL

B. NSCCL

C. SBI

D. CDSL

Answer: (b)



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7. OTCEI was started on the lines of

A. (a) NASDAQ

B. (b) NYSE

C. (c) NASAQ

D. (d) NSE

Answer: (a)



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8. To be listed on NSEI, the minimum capital requirements for a company

A. (a) RS.5 crores

B. (b) RS. 3 crores

C. (c) RS. 6 crores

D. (d) RS. 1 crore

Answer: (b)



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9. Treasury Bills are basically

- A. (a) An instrument to borrow short term funds.
- B. (b) An instrument to borrow long term funds
- C. (c) An instrument of capital market
- D. (d) None of the above

Answer: (a)



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10. REPO is

- A. (a) Repurchase agreement
- B. (b) Reliance Petroleum
- C. (c) Read and Process
- D. (d) None of the above

Answer: (a)



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Sort Answer Type Questions

1. What are the functions of financial markets?



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2. 'Money market is essentially market for short term funds'. Discuss.



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3. What is treasury bill?





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4. What is REPO and reverse REPO?



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5. Distinguish between capital market and money market.



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6. What are the functions of Stock Exchange?



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7. What are the objectives of SEBI?



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Long Answer Type Questions

1. Explain the various money market instruments.



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2. What are the methods of floatation in primary market?



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3. Explain the capital market reforms in India.



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4. Explain the objectives and functions of SEBI.



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Very Short Questions

1. What do you mean by financial market?



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2. Enumerate two segments of financial market.



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3. What are the features of capital market perform?



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4. What function does financial market perform?



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5. Explain new issue market.



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6. Explain the term

(a) Going public (b) Wate the equity



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7. Describe money market.



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8. What do you mean by treasury bills?



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9. 'Money market instruments are more liquid than capital market instruments'. Comment.



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10. 'Money market instruments are more safe than capital market instruments". Comment.



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11. 'Stock market imparts liquidity to investments". Comment.



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12. Describe SEBI.



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13. Describe price rigging.



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14. Describe insider trading.



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15. Outline the major instruments of money market.



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16. Give any three features of capital market.



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17. Define right issue.



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Short Answer Questions

1. What are the protective functions of SEBI?



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2. Why is SEBI called the watchdog of stock exchange?



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3. What are the regulatory functions of SEBI?



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4. Explain the features of money market instruments.



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5. Distinguish between capital and money market.



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6. Distinguish between primary and secondary market.



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7. What are the possible ways for first time sale of securities by a company?



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8. What do you mean by listing of securities?

How are listed securities traded in the stock exchange market?



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9. The directors of a company want to modernise its plant and machinery by making a public issue of shares. They wish to approach the stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares.

Advise the directors whether to approach the stock exchange or a consultant for new public issue of shares and why.

Also advise them about different methods which the company may adopt for the new public issue of share.



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10. What is meant by primary market? Briefly explain the concept of initial public offer.



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11. What is meant by SEBI? Briefly explain its objectives.



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12. In today's commercial world stock exchange performs vital role. Do you agree? Give reason to support your answer.



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13. Explain any four functions of stock exchange.



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14. Explain any four functions of financial market.



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One Mark Questions

1. What is meant by a 'Commercial Paper'?



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2. An investor wanted to invest RS. 20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.

Identify the reason why the investor could not invest in the Treasury Bill.





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3. How do 'Floatation costs' affect the choice of capital structure of a company? State.



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4. Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions'. Explain any three such functions.



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5. Distinguish between Capital Market and Money Market on the basis of the following:

(a) Participants (b) Instruments



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6. 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 of 'Vena Bank'. 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 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, 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 line from the above para, identify and state any two functions that were performed by SEBI in the above case.



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7. State the protective functions of Securities and Exchange Board of India.



8. These days, the development of a country is also judged by its system of transferring finance from the sector where it is in surplus to the sector where it is needed most. To give strength to the economy, SEBI is undertaking measures to develop the capital market. In addition to this, there is another market in which unsecured and short-term debt instruments are actively traded everyday. These markets together help the savers and

investors in directing the available funds into their most productive investment opportunity.

(a) Name the function being performed by the market in the above case.

(b) Name the market for short term debt.

(c) Differentiate between both the market.



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9. Given the meaning of Formal Organisation .State its any four advantage.



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10. Ganesh Steel Ltd.' is a large and credit-worthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money market.

(a) Name and explain the money-market

instrument the company can use for the above purpose.

(b) What is the duration for which the company can get funds through this instrument?

(c) State any other purpose for which this instrument can be used.



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11. State any four functions of 'Stock Exchange'.



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12. State any four methods of floatation of new issues in the primary market.



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