



## **BUSINESS STUDIES**

**BOOKS - VK GLOBAL PUBLICATION**

**BUSINESS STUDIES (HINGLISH)**

## **FINANCIAL MARKETS**

**Think As You Read**

**1. What is meant by a financial market ?**



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2. What is financial intermediation ?



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3. Name the two major alternative mechanisms used for allocation of funds



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4. On what basis are the financial markets classified ?



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5. What are the two segments of capital market ?



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6. What are the other name of primary market and secondary market ?

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7. Instruments with a maturity period of less than one year are traded in the \_\_\_\_\_

(a) capital market (b) money market

(c) Bombay Stock Exchange (BSE) (d) National Stock Exchange (NSE)

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8. Money market has no physical location.

Then, how is trading done ?



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9. List four major participants of money market.



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**10.** Mention any two major instruments of capital market



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**11.** Which method of short-term finance do the banks adopt to maintain their Cash Reserve Ratio ?



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**12.** Which of the following money market instruments is also known as zero coupon bond ?

(a) Treasury bills (b) commercial paper

(c) Call money (d) Certificate of Deposits



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**13.** Treasury bills are available for a minimum amount of \_\_\_\_\_ and in multiples thereof.

(a) Rs 10,000 (b) Rs 15,000

(c) Rs 20,000 (d) Rs 25,000



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**14.** Commercial paper is a short-term unsecured promissory note having a maturity period of \_\_\_\_\_

(a) 91 days to one year (b) 15 days to one year

(c) one day to 15 days (d) one year



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15. It is an instrument of short term borrowing issued by RBI on behalf of India government

(a) Call money (b) Certificate of deposit

(c) Commercial paper (d) Treasury bill

A. Call money

B. Certificate of deposit

C. Commercial paper

D. Treasury bill

**Answer:**



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**16.** What is difference between trade bill and commercial bill ?

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**17.** 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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**18.** List any two characteristics of secondary market.



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**19.** Give two reason why money market instruments are much safer than capital market instruments



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**20.** What is the effect of a rise in call money rates on other short-term debt instruments ?



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**21.** What is the main function of a primary market ?



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**22.** How do primary and secondary market promote capital formation ?



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**23.** Enumerate the conditions for raising funds in the primary market by the method of 'offer through prospectus'



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**24.** Primary and secondary markets \_\_\_\_\_

(a) complete with each other (b) complement each other

(c) function independently (d) control each other



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**25.** Naina has 1,000 equity shares of a company. She wants to sell 500 of these shares. Which market should she approach ?  
Give reason in support of your answer.



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**26.** Identify the method of floatation in the following cases:

(i) X Ltd. offered the entire new issue of shares to life insurance company.

(ii) Sunil has 500 shares in Y Ltd. He received an offer to buy 1 share of Y Ltd. for every 5 shares held by him.



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27. AB Ltd. has sold 1 lakh equity shares of Rs 10 each at Rs 12 per share to a stock broker, who offered them to the public at Rs 20 each. Identify the method of floatation



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28. What is the least trading system in stock exchange ?



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**29.** What is meant by 'Dematerialisation' ?



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**30.** What is Demant Account ?



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**31.** How many depositories are operational in India ? Name them.



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**32.** How does depository interact with the investors ?



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**33.** What settlement system does the Equity spot market follow ?



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**34.** Which of the following explains the meaning of 'Depository' ?

(a) Depository buys shares and securities from a company and sells to the general public at a higher price

(b) Depository is like a bank which keeps securities in electronic form on behalf of investor

(c) Depository holds the funds received in the form of deposits.

(d) Depository buys and sells the shares and securities on the instructions of clients.



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**35.** What does the abbreviation SEBI stand for ?



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**36.** In which year the SEBI was established by the Government of India ?

(a) 1980 (b) 1988 (c) 1992 (d) 1993



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**37.** What is the overall objective of SEBI ?



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**38.** Which of the following is not the function of SEBI ?

- (a) Registration of brokers and sub-brokers
- (b) Undertaking measure to develop financial markets
- (c) Prohibition of inside trading
- (d) Holding the securities in electronic form



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**39.** Give two protective functions of SEBI



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**40.** Give two regulatory functions of SEBI



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**41.** Give two developmental functional of SEBI



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## 10 1 Application High Order Thinking Skills Hots And Evaluation Based Questions With Answers

1. With the explosive growth of its subscriber base, to fuel its expansion plan Airo Telecon Co. Ltd. Wants to raise Rs 500 crore by issuing equity shares.

(a) Identify and state the market Airo Telecom Co. Ltd. will look for to raise funds worth Rs 500 crore to fuel its expansion plane. Give

reason in support of your answer.

(b) Explain any four methods through which Airo Telecom Co. Ltd. can issue equity shares.



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2. Saqib Ltd, is a large credit worthy company operating in the Kashmir Valley. It is an export oriented unit, dealing in exclusive embroidered shawls. The floods in the Valley have created many problems for the company. Many craftsmen 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 selling on credit are asking the company, for advance payment or cash payment on delivery. 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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**3.** Sika Ltd., a reputed industrial machines manufacturer, needs Rs 20 crore as additional capital to expand the business. Mr. Amit Joshi, the Chief Executive Officer (CEO) of the company wants to raise funds through equity. The finance Manager, Mt. Narender Singh,

suggested that the shares may be sold to investing public through intermediaries, as the same will be less expensive.

Name the method through which the company decided to raise additional capital.



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4. 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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5. Varunica Ltd., a reputed truck manufacturing company, needs Rs 30 crore as additional capital to expand its business. Mr. Alind Jindal, the CEO of the company, wants to raise funds through equity. The Finance Manager, Mr. Nikhil Sachdeva, suggests that the existing

shareholders be offered the privilege to subscribe to new issue of shares as per the terms and conditions of the company which was agreed by Mr. Alind Jindal. Name the method through which the company decided to raise additional capital



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**6.** Shreya Ltd. is a large credit-worthy company manufacturing automobiles for the India market. It now wants to cater to the other

market and decided to invest in new machines. For this, 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 discuss 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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## 10 1 Test Your Understanding

1. A Treasury Bill is basically \_\_\_\_\_

A. an instrument to borrow short-term funds

B. an instrument to borrow long-term funds

C. an instrument of capital market

D. None of the above

**Answer: A**



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2. Meca Ltd. a reputed automobile manufacturer needs Rs 10 crore as additional capital to expand its business. Atul Jalan, the



CEO of the company wanted to raise funds through equity. On the other hand, the Finance Manager, Nimi Sahdev said that the public issue may be expensive on around of various mandatory and non-mandatory expenses. Therefore, it was decided to allot the securities to institutional investors.

Name the method through which the company decided to raise additional capital.



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3. Vani Oil Refinery' is a large company, engaged in processing crude oil and refining it into more useful products like Petroleum, Kerosene, LPG etc. It has built good reputation over the years. It has been consistently earning profits and paying regular dividend to its shareholders. It needs additional working capital immediately to finance a project. It expects to return this amount after seven to eight months. Ashish Batra, the Finance Manager of the company does not want to get into procedural requirements of securing

finance from a Commercial Bank.

Suggest how the company can raise the required finance for meeting its additional working capital requirements.



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4. It is an institution which helps companies raise finance, provides liquidity and safety of investment to the investors and enhances the credit worth ness of individual companies.



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## 10 2 Application High Order Thinking Skills Hots And Evaluation Based Questions With Answers

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 forms, Supriya wants to know the process by

adopting which she is in a position to deal with these certificates.

(a) Identify and state the process.

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



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**2.** 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'. 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 Ts 5 crore 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 crore. He earned a profit of Rs 2

crore. 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 by heavy penalty on Mr. Sanjay Nehra.

By quoting the lines from the above para identify and state any two functions that were performed by SEBI in the above case.



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3. 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 Demat 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 Demat Accounts very soon. But the company delayed the matter and did not transfer the shares of the customers to their Demat Accounts. This eroded investors confidence and multiplied their grievances.

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

(b) Name the Apex statutory body of capital

market to whom customer can complain to redress their grievances.

(c) Write two values not followed by Unicon Securities Pvt. Ltd.



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## 10 2 Test Your Understanding

1. 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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2. SEBI recently called for information and issued a show cause notice to NSE and its 14 officials seeking explanation on the

Preferential Access a legations at the Exchange's Co-location facility. State the function that SEBI performed by doing so.



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3. ABC Ltd. issued prospectus for the subscription of its shares for Rs 500 crore 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 crore 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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**4.** Name the organisation which has been established in India to regulate stock

exchanges and to protect the interests of investors.



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## Brain Teaser

1. 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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2. 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 measure 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) Also, explain briefly three other functions performed by this market.



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## Self Evaluation Test 1

1. Differentiate between Capital Market and Money Market on the basis of:

(i) Investment Outlay, (ii) Safety and (iii) Liquidity



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2. The Trading Procedure on Stock Exchange has been replaced by on-line screen based electronic trading system. This is mainly done to eliminate problems like theft, fake/forged transfers, transfer delays and paper work associated with share certificates or debentures in physical form. This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that he/she can hold it as an electronic balance in

an account. This has increased the equity cult among the people

(a) Identify and state the process mentioned above

(b) What is the most important requirement for the process identified in (a) ? Explain.



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3. 'Money Market is essentially a Market for short term funds". Discuss its three features.



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4. 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 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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**5. What are the functions of a financial market ? Explain**



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6. To promote orderly and healthy growth of securities market and protection of investors, Securities and Exchange Board of India was set up'. With reference to this statement explain the objectives of Securities and Exchange Board of India.



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**Self Evaluation Test 2**

1. Sakshi Ltd, a well-known real estate company has managed to carve a niche for itself in this sector. Recently, it was revealed that the directors of the company have used price sensitive information for their own personal interest. Adequate public disclosures were also not made. SEBI is considering action against these directors.

Name the term used for trading malpractice done by the directors of this company



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**2. What are the functions of a Stock Exchange**  
? Explain any four.



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**3. State the first four steps which are involved**  
in the screen -based trading for buying and  
selling of securities in the secondary market.



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4. Explain the various Money Market Instruments



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5. What are the methods of floatation in Primary Market ? Explain



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6. 'SEBI is the watchdog of the securities market.' Explain.



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7. Distinguish between Capital Market and Money Market on any six basis.



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