



## BUSINESS STUDIES

### BOOKS - ARIHANT BUSINESS STUDIES (HINGLISH)

## FINANCIAL MARKET

#### Check Point 1

1. What is the benefit of 'allocative function' of financial markets?



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2. Define financial assets.



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3. How does financial markets help, in reducing cost?



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4. What is Cash Reserve Ratio?



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## Check Point 2

1. How does stock exchange spread equity cult?



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2. How is trading done on a stock exchange?



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3. Who is a Depository Participant?



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4. State two objectives of NSE.



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5. What is OTCEI?



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6. State the malpractices that take place in securities market.



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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. The total number of stock exchanges in India is

- A. 20
- B. 21
- C. 22
- D. 23

**Answer: b**



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**3. The settlement cycle in NSE is**

A.  $T + 5$

B.  $T + 3$

C.  $T + 2$

D.  $T + 1$

**Answer: C**



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**4. The 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 future trading in the year**

A. 1999

B. 2000

C. 2001

D. 2002

**Answer: B**



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6. Clearing and settlement operations of NSE are carried out by

A. NSDL

B. NSCCL

C. SBI

D. CDSL

**Answer: B**



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7. 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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### Ncert Folder Short Answer Type Questions

1. What are the functions of a financial market?

or

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



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2. Money market is essential market for shortterm funds'. Discuss.



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3. What is a treasury bill?



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4. Distinguish between money market and capital market.



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5. What are the functions of a stock exchange?



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6. What are the objectives of SEBI?

or

Why was SEBI set up? Explain any three objectives of SEBI.



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7. State the objectives of the NSE.



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8. What is the OTCEI?



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### Ncert Folder 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 recent capital market reforms in India.



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4. Explain the objectives and functions of the SEBI.



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5. Explain the various segments of the NSE.



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### Case Problem 1

1. R Ltd is a real estate company which was formed in 1950. In about 56 years of its existence, the company has managed to carve out a niche for itself in this sector. Lately, this sector is witnessing a boom due to the fact

that the Indian economy is on the rise. The incomes 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 weighs various options to raise money through equity offerings in India.

Whether to tap equity or debt market, whether to raise money from domestic market or to raise money from domestic market or international market or combination of both? When 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 ADRs. To make its offerings attractive, it is planning to offer host of financial plans and products to its stakeholders and investors and also expand its listing at NSE after complying with the regulations of SEBI.

What benefits will the company derive from listing at NSE?



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2. R Ltd is a real estate company which was formed in 1950. In about 56 years of its existence, the company has managed to carve out a niche for

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

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



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How does the SEBI exercise control over 'R' Ltd in the interest of investors?



## Case Problem 2

## Case Problem 2

## NSE Indices

<i>Index</i>	<i>Current</i>	<i>Previous</i>	<i>% Change</i>
S & P CNX Nifty	3641.1	3770.55	-3.43%
CNX Nifty Junior	6458.55	6634.85	-2.66%
CNX IT	5100.5	5314.05	-4.02%
Bank Nifty	5039.05	5251.55	-4.05%
CNX 100	3519.35	3640.35	-3.32%

## World Markets

<i>Index</i>	<i>Current</i>	<i>Previous</i>	<i>% Change</i>
NYSE Composite	8926.88	9120.93	-2.13%
NASDAQ Composite	2350.57	2402.29	-2.15%
DOW Jones IA	12076	12318.6	-1.97%
S & P 500	1377.95	1406.6	-2.04%
Nikkei 225	16676.9	17178.8	-2.92%

1.

The above figures are taken from the website of National Stock Exchange of India. They illustrate the movement of NSE stock indices as well as world stock indices on the date indicated.

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



## Case Problem 2

### NSE Indices

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



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## Case Problem 2

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



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1. Under which of the following methods, securities are not issued directly to the public, but are offered through intermediaries like issuing houses or stock brokers?

- A. Offer through prospectus
- B. Offer for sale
- C. Private placement
- D. E-IPO

**Answer: B**



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2. In which of the following aspects, money market is different from capital market?

- A. Participants
- B. Tenure of securities traded

C. Liquidity of securities traded

D. All of the above

**Answer: D**



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**3.** In case of an e-IPO , who co-ordinates with all the intermediaries connected with the issue?

A. Issuing house

B. Managing director

C. Chief financial officer

D. Lead manager

**Answer: D**



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4. Funds raised through commercial paper are used to meet the floatation costs are known as

- A. equity financing
- B. bridge financing
- C. debt financing
- D. None of these

**Answer: B**



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5. Mr A, an existing shareholder of a company is offered the 'right' to buy new shares in proportion to the number of shares, he already possess.

This kind of issue is known as

- A. (a) offer through sale
- B. (b) e-IPOs

C. (c) private placement

D. (d) rights issue

**Answer: D**



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6. Mr B has purchased treasury bills of face value of Rs. 1,00,000 at Rs. 96,000. At the time of maturity , he will get Rs. 1,00,000. How much interest is received by him?

A. (a) Rs. 10,000

B. (b) Rs.4,000

C. (c) Nil

D. (d) None of these

**Answer: B**



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7. A ..... is a speculator, who expects rise in price of securities and a ..... is a speculator, who expects fall in price of securities.

- A. bull, bear
- B. bear, bull
- C. broker, stag
- D. stag, broker

**Answer: A**



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8. Stock exchange helps in

- A. providing liquidity to existing securities
- B. contributing to economic growth
- C. pricing of securities

D. All of the above

**Answer: D**



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9. SEBI was established on ..... and its headquarter is situated at ..... .

A. 12th April 1988, Mumbai

B. 12th April 1090, Mumbai

C. 12th May 1988, Delhi

D. 12th May 1990, Delhi

**Answer: A**



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10. Which of the following is a depository formed for the purpose of ensuring free transferability of securities in India,?

- A. NSDL
- B. RBI
- C. SEBI
- D. None of the above

**Answer: A**



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11. Which of following is /are depository participants?

- A. ICICI bank
- B. Angel broking
- C. SBI bank
- D. All of these



**Answer: D**



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12. ....is manipulating the market price of shares by increasing or decreasing their prices.

- A. Price rigging
- B. Insider trading
- C. Private placement
- D. Fluctuation

**Answer: A**



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1. Give the meaning of 'money market'.



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2. What is meant by 'capital market'?



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3. What do you mean by financial markets?



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4. What function does financial market perform?



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5. Mention two major alternative mechanisms through which allocation of funds can be done.



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6. Financial market facilitates easy purchase and sale of financial assets.

Do you agree?



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7. Give any two participants in the money market?



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8. Which instrument of money market is drawn by one business firm on another for a period of 90 days?



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9. Give a difference between CD and FD.



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10. What is meant by 'secondary market'?



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



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12. State two different ways of issuing securities in primary market.



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13. In which form of market, is ownership of existing securities exchanged between investors?



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14. State the essential function of 'primary market'.



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15. A public company achieved the minimum subscriptions through private placement. Whose interest has been ignored here?



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16. What is the latest trading system in the stock exchange?



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17. What is a Client Registration Form?



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18. What does wholesale Debt Market deal in ?



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19. State any one function of stock exchange.



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20. Which organisation/institution provides scope for speculation?



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21. Why is stock exchange called 'secondary market'?



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**22.** Give the full form of the following abbreviations.

(i) NSEI (ii) OTCEI

(iii) NASDAQ



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**23.** How many stock exchanges are there in India?



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**24.** Name the Index of Bombay Stock Exchange.



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**25.** What is 'Badla' in stock exchange?



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26. What is 'Odd' lot trading ?



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27. What is penny stocks?



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28. What do you understand by the term depository ?



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29. State the procedure for an investor, who wants to buy securities on a stock exchange.



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**30. Who are brokers?**



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**31. What is dematerialisation of securities?**



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**32. Enumerate any one objective of setting up SEBI.**



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**33. Give one regulatory function of SEBI.**



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**34.** State one development function of SEBI.



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**35.** State any one protective function of Securities and Exchange Board of India.



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**36.** Explain the term 'Price rigging'.



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**37.** How does financial market help in mobilisation of savings and channelise them into the most productive uses?



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**38.** Give a difference between capital market and money market, on the basis of duration.



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**39.** Sika Ltd., a reputed industrial machine manufacturer, needs Rupees twenty crores 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, Mr. 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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**40.** Meca Ltd. A reputed automobile manufacturer needs Rupees ten crores 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 account 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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**41.** In secondary market, sale of securities takes place between investors only, then how does this market contribute to capital formation?



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**42.** Mr Sahil and Mr Rajesh are promoting a new company. They are not able to decide on, how to raise funds.

Sahil is interested in a new issue through prospectus, while Rajesh wants

a rights issue. As a financial manager, suggest Sahil and Rajesh for the appropriate decision.



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**43.** 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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## Chapter Practice Short Answer Type Questions

**1.** Nature of 'capital market' can be explained well with the help of its features. State any three such features of capital market.



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2. What is meant by money market? Explain any two instruments used in money market.



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3. Nature of money market can be well explained with the help of its features. State any three such features of money market.



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4. What is meant by primary market?

Explain any two methods of floating new issues in the primary market.



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5. Discuss in detail the type of market which deals in previously issued securities.



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6. What is meant by right is issue of shares ?

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7. State the essential features of a stock exchange.

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8. What is a depository and what services they offer to the investors ?

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9. State some of the benefits, which are offered by depository system.

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**10. Explain any three functions of stock exchange.**

or

**Explain any two functions of stock exchange.**

or

'Stock exchange not only contributes to the economic growth, but performs many other functions., Explain any three such functions.



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**11. What are the advantages of screen based tradings system ?**



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**12. Explain the working of a Demat Account.**



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**13. What are the objectives NSE?**





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14. What is OTCEI? Explain the advantages of OTCEI ?



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15. What were the objectives behind establishment of NSEI?



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16. What do you understand by insider trading ?



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17. What does the abbreviation 'SEBI' stand for ? Explain the term SENSEX.

How many shares are included in the SENSEX?



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**18.** State any three 'protective functions' of Securities and Exchange Board of India (SEBI).



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**19.** Why are money market instruments more liquid as compared to capital market instruments ?



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**20.** You are working as a financial advisor. One of your clients asked, how securities are sold in secondary market. Give details in this context.



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



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**23.** SEBI is the watch dog of security market. Do you agree ? Give three reasons in support of your answer.



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**24.** Mr Axe, one of the directors of XYZ Ltd, knew that bonus shares were to be announced in the next meeting and he expected the price to rise. He bought 10000 shares from the stock market. By the end of few months, price rose by Rs. 9. He sold his shares and made huge profit.

(i) Name the act of Mr Axe.

(ii) Is it permitted ?

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## Chapter Practice Long Answer Type Questions

**1.** Explain any four functions of financial market.

or

'Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions'.

Explain any four such functions.

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2. 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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3. Differentiate between 'Primary market' and 'secondary market' on any five basis.



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4. Differentiate between 'capital market' and 'money market' on the basis of the following.

- |                  |                        |
|------------------|------------------------|
| (i) Participants | (ii) Instruments       |
| (iii) Duration   | (iv) Investment outlay |
| (v) Liquidity    |                        |

or

Differentiate between 'capital market' and 'money market' on the basis of the following .

(i) Meaning (ii) Liquidity

(iii) Safety (iv) Expected Return

(v) Duration



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5. In today's commercial world, the stock exchange performs many vital functions which lead the investors towards positive environment'. Explain how, by giving any four reasons.

or

'Stock market contributes to better allocation of capital and promoting the habit of investment'. In the light of above statement, enumerate the functions of stock exchange.



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6. List some examples of the malpractices in capital market, which forced government to set-up a separate regulatory body SEBI. State some of the regulatory functions of SEBI.



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## Case Studies 1

### 1. Idea Seeks to Capitalise on Market Momentum

With the explosive growth of their subscriber base, telecom companies are all looking at capital markets to raise funds to fuel their expansion plan. Idea Cellular, the fifth largest operator in the country and the flagship telecom venture of AV Birla Group, has decided to enter the capital market to raise between Rs. 1,700 and Rs. 2,000 crore.

The company has appointed J.M.Morgan Stanley, Merrill Lynch among other as look-runners for the proposed Initial Public Offer (IPO), which is expected to be ready by January end. Since, under SEBI norms, the minimum float size is 10 per cent, the company will divest between 10 and 12 per cent, "The last private placement made by the promoters is at a

market capitalisation of Rs. 15,000 crore. The proposed float is expected to be at 10 to 20 per cent premium of the private placement price, " AV Birla Group recently divested 35 per cent take in the company to a clutch of private equity firms. However, this is a fresh issue of shares, where the proceeds will be utilised by Ideal Cellular for capital expenditure. After the proposed issues, the promoters stake will come down to around 58 per cent.

With reference to the above case, define capital market.



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## 2. Idea Seeks to Capitalise on Market Momentum

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Differentiate between Capital and Money Market



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## Case Studies 2

### 1. Sterlite Industries

Sterlite Industries, part of the London listed Vedanta Resources Group, is scheduled to be listed on the New York Stock Exchange through an initial

public offering (IPO) of about \$2 billion. The proceeds will be used to fund its \$1.9 billion, Greenfield power project in Orissa and to expand its aluminium and copper facilities. The IPO is a part of an enabling resolution passed by Sterlite to raise upto 12,500 crores through American Depository Shares (ADS). Consequently, the company has increased its authorised capital from Rs. 150 crore to Rs. 185 crore by creating an additional 17.5 crore equity shares of Rs. 2 each. The shares of Sterlite, which will be among the first metal firms from India to list on NYSE, outpaced Sensex and rose by 1.4 % to close at Rs. 145.2 on BSE on the day of the announcement .

What do you mean by e-IPO?



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What are the other methods of floating securities in capital market ?



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### Case Studies 3

**1. History of the Stock Market in India** The history of the stock market in India goes back to the end of the eighteenth century when long-term negotiable securities were first issued. In 1850 the Companies Act was introduced for the first time bringing with it the feature of limited liability and generating investor interest in corporate securities. The first

stock exchange in India was set-up in 1875 as The Native Share and Stock Brokers Association in Bombay. Today it is known as the Bombay Stock Exchange (BSE). This was followed by the development of exchanges in Ahmedabad (1894), Calcutta (1908) and Madras (1937). It is interesting to note that stock exchanges were first set up in major centers of trade and commerce. Until the early 1990s, the Indian secondary market comprised regional stock exchanges with BSE heading the list. After the reforms of 1991, the Indian secondary market acquired a three tier form. This consists of :

Regional Stock Exchanges

National Stock Exchange (NSE)

Over the Counter Exchange of India (OTCEI ) stock exchange.

What do you mean by a stock exchange?



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**2. History of the Stock Market in India** The history of the stock market in India goes back to the end of the eighteenth century when long-term negotiable securities were first issued. In 1850 the Companies Act was

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This consists of :

Regional Stock Exchanges

National Stock Exchange (NSE)

Over the Counter Exchange of India (OTCEI ) stock exchange.

What functions are performed by stock exchange.



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## 1. Stock Market Index

A stock market index is a barometer of market behaviour. It measures overall market sentiment through a set of stocks that are representative of the market . It reflects market direction and indicates day-to-day fluctuations in stock prices. An ideal index must represent changes in the prices of securities and reflect price movements of typical shares for better market representation. In the India markets the BSE, SENSEX and NSE, NIFTY are important indices.

Some important global stock market indices are :

- Dow Jones Industrial Average is among the oldest quoted stock market index in the US.

-  NASDAQ

*Composite Index is the market capitalisation weights of prices of or s*

\*

*S and P 500 Index is made up of 500 big > st publicly traded companies in the*

\* FTSE 100 consists of the largest 100 companies by full market value listed on the London Stock Exchange. The FTSE 100 is the benchmark index of the European market.

What is meant by NSE.



## 2. Stock Market Index

A stock market index is a barometer of market behaviour. It measures overall market sentiment through a set of stocks that are representative of the market . It reflects market direction and indicates day-to-day fluctuations in stock prices. An ideal index must represent changes in the prices of securities and reflect price movements of typical shares for better market representation. In the India markets the BSE, SENSEX and NSE, NIFTY are important indices.

Some important global stock market indices are :

- Dow Jones Industrial Average is among the oldest quoted stock market index in the US.
- NASDAQ Composite Index is the market capitalisation weightages of prices for stocks listed in the NASDAQ stock market.
- S and P 500 Index is made up of 500 biggest publicly traded companies in the US. The S and P 500 is often treated as a proxy for the US stock market.

- FTSE 100 consists of the largest 100 companies by full market value listed on the London Stock Exchange. The FTSE 100 is the benchmark index of the European market.

What are the objectives of NSE?



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## Case Studies 5

### 1. SENSEX - The Bombay Stock Exchange Sensitive Index

Have you counted the number of times newspaper headlines in the past few weeks have been discussing the SENEX? It goes up and down all the time and seems to be a very important part of business and economic news. Has that made you wonder what the SENSEX actually is ?

The SENSEX is the benchmark index of the BSE. Since the BSE has been leading exchange of the Indian secondary market, the SENSEX has been an important indicator of the Indian stock market. It is the most frequently used indicator while reporting on the state of the market. An index has just one job: to capture the price movement. So a stock index



will reflect the price movement. So a stock index will reflect the price movements of shares while a bond index captures the manner in which bond prices go up or down. If the SENSEX rises, it indicates the market is doing well. Since stocks are supposed to reflect what companies expect to earn in the future, a rising index indicates that investors expect better earnings from companies. It is also a measure of the state of the Indian economy. If Indian companies are expected to do well, obviously the economy should do well too. The SENSEX, launched in 1986 is made up of 30 of the most actively traded stocks in the market. In fact, they account for half the BSE's market capitalisation. They represent 13 sectors of the economy and are leaders in their respective industries.

Which stock exchange is related to the term SENSEX?



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What are the objective of BSE?



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## Case Studies 6

1. SEBI on Thursday unearthed yet another abuse of IPO norms in the IDFC's Initial Public Offering (IPO) where a few investors opened over 14,000 dematerialized accounts to corner large number of shares of the company. This is the second such incident, after a similar such violations were detected in the YES Bank's IPO. SEBI said in IDFC's IPO too four investors opened as many as 14,807 dematerialized accounts with Karvy-DP and 'Strangely', all these account holders have their bank accounts with Bharat Overseas Bank Ltd., Ahmedabad. SEBI order said: "Further probe is required for examining the systemic fault, if any, of the registrar Karvy-RTI, i.e., Karvy Computer Shares P Ltd., and the lead managers Kotak Mahindra Capital Company Ltd., DSP Merrill Lynch Ltd. and SBI Capital Markets Ltd. in identifying and weeding out the benami applications. " Reference is being made to the RBI to examine the role of BOB, HDFC Bank, Indian Overseas Bank, ING Vysya Bank and Vijaya Bank in opening the bank accounts of these benami entities and apparently funding them.

What was the reason behind the establishment of SEBI?



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2. SEBI on Thursday unearthed yet another abuse of IPO norms in the IDFC's Initial Public Offering (IPO) where a few investors opened over 14,000 dematerialised accounts to corner large number of shares of the company. This is the second such incident, after a similar such violations were detected in the YES Bank's IPO. SEBI said in IDFC's IPO too four investors opened as many as 14,807 dematerialised accounts with Karvy-DP and 'Strangely', all these account holders have their bank accounts with Bharat Overseas Bank Ltd., Ahmedabad. SEBI order said:"Further probe is required for examining the systemic fault, if any, of the registrar Karvy-RTI, i.e., Karvy Computer Shares P Ltd., and the lead managers Kotak Mahindra Capital Company Ltd., DSP Merrill Lynch Ltd. and SBI Capital Markets Ltd. in identifying and weeding out the benami applications. " Reference is being made to the RBI to examine the role of BOB, HDFC Bank, Indian Overseas Bank, ING Vysya Bank and Vijaya Bank in opening the

bank accounts of these benami entities and apparently funding them.

Source The Economic Times

State the Objectives of SEBI.



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## Case Studies 7

1. Squib Ltd. is a large creditworthy 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 materials and the duration of the production cycle has also increased.

To add to the problems of the organisation, the suppliers of raw materials 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-term shortage of cash. As a finance manager of the company, name and explain the alternative to bank borrowings that the company can use to resolve the crisis.



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## Case Studies 8

1. Mr Vikas Mehra was the Chairman of 'IBM 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 the taking over of 'UK Bank'. Mr Vikas Mehra knew that the share price of IBM Bank ' would rise on this announcement. Being a part of the Bank, he was not allowed to buy shares of the Bank, he was not allowed to buy shares of the bank. He called one of his rich friends Mukand and asked him to invest 4 crores in shares of his bank promising him the capital gains.

As expected, after the announcement, the share prices went up by 50% and the market price of Mukand's shares was now 6 crores. Mukand

earned a profit of 2 crores. He gave 1 crore to Vikas Mehra and kept 1 crore with him. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect irregularity. SEBI imposed a heavy penalty on Vikas Mehra.

Quoting the lines from the above para identify and state any two functions performed by SEBI in the above case.

or

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 share 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 friend 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, 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 para identify and state any two functions that were performed SEBI in the above case.



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## Case Studies 9

1. 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 the 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 every day. These markets together help the savers and investors in directing the available fund into their most productive investment opportunity.

Name the function being performed by the market in the above case.



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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 the 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 every day. These markets together help the savers and investors in directing the available fund into their most productive investment opportunity.

Name the market segment other than the capital market segment in which unsecured and short-term debt instruments are traded. Also, give any three points of difference between the two.

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1. Mr George, an investor from England, wrote a letter to financial advisor of TRILX Ltd India.

Dear Sir,

I want to invest £12000 in your company. I believe that after investing in your reputed company, I will receive a good amount of return. In regard to this, I have certain queries please answer the following questions.

How would I invest in your company?



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2. Mr George, an investor from England, wrote a letter to financial advisor of TRILX Ltd India.

Dear Sir,

I want to invest £12000 in your company. I believe that after investing in your reputed company, I will receive a good amount of return. In regard to this, I have certain queries please answer the following questions.

Explain the procedure that Mr George is required to go through for making such investment.



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## Self Assessment Multiple Choice Questions

1. Allotment of securities by a company to institutional investors and selected individuals is known as

- A. public offer
- B. private offer
- C. private placement
- D. offer through prospectus

**Answer: C**



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2. What can be the method of floating new issues in the primary market?

A. Offer through prospectus

B. Private placement

C. Rights issue

D. All of the above

**Answer: D**



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3. .... is a market for the purchase and sale of existing securities.

A. Primary market

B. Money market

C. Secondary market

D. Retail market

**Answer: C**



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4. Which market helps in channelising surplus funds into most productive uses?

- A. Financial market
- B. Wholesale market
- C. Retail market
- D. None of the above

**Answer: A**



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5. In case of public issue of shares, in order to save company from undersubscription, the issue may be

- A. insured
- B. rigged

C. underwritten

D. All of the above

**Answer: C**



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### Self Assessment Very Short Answer Type Questions

1. What is a depository ?



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2. What do you understand by demat account?



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3. Name two instruments of money market.



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4. Give a distinction between capital market and money market on the basis of duration.



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5. State two malpractices that take place on a stock exchange.



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### Self Assessment Short Answer Type Questions I

1. Enumerate any two instruments of money market.



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2. Stock exchange is the barometer of a country's economic health'.

Discuss.



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### Self Assessment Short Answer Type Questions li

1. SEBI is the watch dog of the securities market'. Give reasons.



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2. Discuss in brief any two methods of floatation in primary market.



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### Self Assessment Long Answer Type Questions I



1. If you are working in a stock market, how would you differentiate between an investor and a speculator.



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2. Differentiate between primary and secondary market.



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## Self Assessment Long Answer Type Questions II

1. Explain the objectives and development functions of SEBI.



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2. Trading on a stock exchange involves a series of steps. Explain in brief.



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3. What is meant by 'Dematerialisation of securities'? How can it be done?



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### Cbse Examinations Archive Very Short Answer Type Questions

1. 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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2. Sika Ltd., a reputed industrial machine manufacturer, needs Rupees twenty crores 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, Mr. 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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3. State any one consequence of a well performed 'allocative function' of financial market.



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4. Name the two major alternative mechanisms through which allocation of funds can be done.



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5. Give the meaning of 'secondary market'.



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6. Give the meaning of 'money market'.



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7. State the essential function of 'primary market'.



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8. State any one function of stock exchange.



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9. State any one regulatory function of Securities and Exchange Board of India (SEBI).



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10. State any one protective function of Securities and Exchange Board of India (SEBI).



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11. State any one development function of SEBI.



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12. What is meant by 'capital market'?



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1.State any three 'protective functions' of Securities and Exchange Board of India (SEBI).



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2. Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions'. Explain any three functions of financial market.



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3. State any three 'development functions' of Securities and Exchange Board of India (SEBI).



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1. Differentiate between 'Primary market' and 'secondary market' on any five basis.



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2. Differentiate between 'capital market' and 'money market' on the basis of the following.

- (i) Participants      (ii) Instruments
- (iii) Duration      (iv) Investment outlay
- (v) Liquidity

or

Differentiate between 'capital market' and 'money market' on the basis of the following:

- (i) Meaning      (ii) Liquidity
- (iii) Safety      (iv) Expected return
- (v) Duration



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3. Explain any three functions of financial market.

or Explain any four functions of financial market.

or Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions.

Explain any four such functions.



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4. Explain any four functions of stock exchange.



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5. Explain any four methods of floating new issues in the primary market.

or Explain any four methods of floatation of new issues in the primary market.



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6. What is meant by money market ? Explain any two instruments used in money market.



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