Question1. Primary and Secondary Markets

a. compete with each other.
b. complement each other.
c. function independently.
d. control each other.

Answer: b) complement each other.

Question2. Total number of Stock Exchanges in India are

a. 20.
b. 21.
c. 22.
d. 23.

Answer: d) 23.

Question3.

The settlement cycle in NSE is

a. T + 5.
b. T + 3.
c. T + 2.
d. T + 1.

Answer: c) T+2.

Question4. National Stock Exchange of India was recognized as stock exchange in the year.

a. 1992.
b. 1993.
c. 1994.
d. 1995

Answer: b) 1993.

Question5. NSE commenced futures trading in the year

Answer: b) 2000.

Question6. Clearing and settlement operations of NSE is carried out by

Answer: b) NSCCL.

Question7. OTCEI was started on the lines of

Answer: a) NASDAQ.

Question8. To be listed on OTCEI, the minimum capital requirement for a company is

a. Rs 5 crores.
b. Rs 3 crores.
c. Rs 6 crores.
d. Rs 1 crores.

Answer: b) ` 3 Crores. Explanation:

Minimum capital required by OTCEI to be registered is ` 3 crores and maximum is ` 50 crores.

Question9. Treasury Bills are 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) an instrument to borrow short term funds.

Short answer questions

Question1. What are the functions of financial markets?

Answer: Functions of financial markets are:

1. Mobilisation of Savings: It gives savers the choice of different investments and thus helps to channelise surplus funds into the most productive use.
2. Facilitate Price Discovery: In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.
3. Provide Liquidity to Financial Assets: Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required.
4. Reduce the Cost of Transaction: Financial markets provide valuable information about securities helps to save time, effort and money.

Question2. “Money Market is essentially Market for short term funds” Discuss.

Answer: Money market is a market which deals in monetary assets whose period of maturity is up to 1 year. This makes these assets highly liquid.

Thus, money market helps in raising short term funds, for meeting temporary shortages in cash and also for temporary deployment of excess funds available, for earning returns.

Important money market instruments are:

1. Call money
2. Treasury Bills
3. Commercial Papers
4. Certificate of Deposit
5. Commercial Bills

Question3. What is Treasury Bill?

Answer: Treasury bill is the short term instrument which the Central Government issues to the financial institutions or the general public in order to meet its short term financial needs. Its maturity period cannot be more than a year. It is issued by the RBI on behalf of the government.

Question4. Distinguish between Capital Market and Money Market.

Answer: Difference between Capital Market and Money Market:

Basis	Capital Market	Money Market
Meaning dealing in the long term funds is known as capital market.	The market dealing in short term funds is known as money market.	The market
Amount of Investment expenditure	Not huge as value of securities is less expensive	Huge as instruments are
Major Participants	Companies, stock exchanges,	RBI, Commercial

commercial banks,	banks, non-	
financial	banking finance	
institutions, retail	companies,	
investors, etc	mutual funds,	
etc		
Securities	Equity shares,	Treasury bills,
traded	debentures,	commercial bills
bonds, etc	commercial	
paper, call		
money, etc		
Safety	Risky in terms of	Much safer,
both capital	since for short	
invested & returns	period & issued	
thereon	by banks,	
government		
etc.		

Rate of interest generally higher	Rate of interest in this market is	Rate of interest is generally low

Question5. What are the functions of Stock Exchange?

Answer: The functions of a stock exchange are:

Providing liquidity and marketability of securities – Stock exchange creates continuous market for buying and selling of securities by giving chance to investors for investing and disinvesting their securities.

Pricing of securities – Stock exchange is a mechanism of constant valuation through which the prices of the securities are determined. The share prices are determined by the forces of demand and supply. Safety of transactions – Stock exchange ensures fair and safe deal on the market as only listed companies can trade their securities through this.

Contributes to Economic Growth – Stock exchange helps investors in investing and reinvesting their savings. This helps in channelising the savings in productive use which in turns lead to capital formation and economic growth.

Spreading of equity cult – Stock exchange ensures wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investment.

Question6. What are the objectives of SEBI?

Answer: The objectives of SEBI are:

To regulate stock exchanges through framing of rules and regulations and code of conduct to regulate intermediaries such as brokers, bankers, underwriters, etc.

To keep a check on the activities of the brokers and other middlemen in order to regulate any unfair trade practices in the capital market.

To protect the rights and interests of investors, particularly individual investors and to guide and educate them.

To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.

To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

Question8. What are the objectives of NSE?

Answer: NSE was set up with the following objectives:

1. Providing a fair, efficient and transparent securities market using electronic trading system.
2. Establishing a nationwide trading facility for all types of securities.
3. Enabling shorter settlement cycles and book entry settlements.
4. Meeting international benchmarks and standards.
5. Ensuring equal access to investors all over the country through an appropriate communication network.

Question9. What is OTCEI?

Answer: OTCEI was set up to address the needs of small business organisations. It is termed as a second tier exchange for small investors. OTCEI was incorporated in 1992 to provide listing facility for small companies with paid up capital of less than ` 3 crores. Over the counter market may be defined as a place where buyers seek sellers and vice-versa. The objectives of OTCEI are to provide quicker liquidity to securities at a fixed and fair price, liquidity for less traded securities or that of small companies, a simplified process of buying and selling and easy and cheaper means of making public sale of new issues.

Long answer questions

Question1. Explain the various Money Market Instruments.

Answer:

Call Money: Call money is short term finance repayable on demand with a maturity period of one day to fifteen days, used for inter bank transactions. It is a method by which banks borrow from each other to maintain the cash reserve ratio. Cash reserve ratio is the minimum cash balance which banks have to maintain. The interest rate paid on call money loans is known as the call rate. Treasury Bill: Treasury bill is the short term instrument which the Central Government issues to the financial institutions or the general public in order to meet its short term financial needs. Its maturity period cannot be more than a year. It is issued by the RBI on behalf of the government.

Commercial Paper: Commercial papers are those unsecured promissory notes which are issued by reputed companies. Their buyers are banks, insurance companies, unit trust and firms. The minimum face value of a commercial paper is five lakh rupees. It is used to meet the demand of a short term seasonal need and requirement of working capital.

Certificate of Deposit: refers to a time deposit or fixed deposit which can be sold in the secondary market. Only a bank can issue Certificate of Deposit.

Commercial Bill: A commercial bill is a bill of exchange used to finance the working capital requirements of business firms.

Question2. What are the methods of floatation in Primary Market.

Answer: The various methods of floatation of new issues in the primary market are:

Offer through prospectus – Under this method, a company, through issue of prospectus, invites public to subscribe to its shares. It makes direct appeal to investors to raise funds. Prospectus should contain the provisions, as required by Companies' Act and SEBI guidelines.

Offer for Sale – Under this method securities are offered for sale to public through intermediaries like stock brokers and by issuing houses. The company sells securities to brokers, who in turn resell the securities to the investing public.

Private Placement – Under this method the company allots securities to institutional investors and to some selected individuals. This is a cost effective and quicker way to raise funds.

Right Issues – Under this, the company issues the new shares to the existing shareholders. The shareholders are offered the right to buy the new shares in proportion to the number of shares they already possess.

e – IPOs – When a company issues share to the public through the on-line system of the stock exchange it is called electronic initial public offer. The issuer company can apply for listing of its securities on any exchange other than the exchange through which it has offered its securities earlier.

Question3. Explain the Capital Market reforms in India.

Answer: Capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It can be divided into two parts: a. Primary Market and b. Secondary market. First stock exchange was set up in India in 1875 that was later named as Bombay Stock Exchange. After the reforms of 1991, Stock market in India acquired three tier systems: Regional stock exchange, national stock exchange and OTCEI.

Regional stock exchange: First regional stock exchange was set up in Ahmadabad. Later on stock exchanges were set up in Calcutta, Madras, Delhi, Hyderabad and Indore. Currently there are 22 regional stock exchanges.

National stock exchange: It started operations in 1994, with trading on the wholesale debt market segment. The NSE was setup by leading financial institutions, banks, insurance companies and other financial intermediaries. It is managed by professionals, who do not directly or indirectly trade on the exchange.

Over the counter exchange of India: It was set-up to provide small and medium companies an access to the capital market for raising finance in a cost effective manner. It is defined as a place where buyers seek sellers and vice-versa and then attempt to arrange terms and conditions for purchase/sale acceptable to both the parties.

Question4. Explain the objectives and functions of SEBI.

Answer: SEBI was set up in 1988 to regulate the functions of the securities market with a view to promote their orderly and healthy development, to provide adequate protection to investors and thus, create an environment to facilitate mobilisation of adequate resources through the securities market.

Objectives of SEBI:

To regulate stock exchanges through framing of rules and regulations and code of conduct to regulate intermediaries such as brokers, bankers, underwriters, etc.

To keep a check on the activities of the brokers and other middlemen in order to regulate any unfair trade practices in the capital market.

To protect the rights and interests of investors, particularly individual investors and to guide and educate them.

To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.

To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

Functions of SEBI:

Protective Functions.

1. To prohibit fraudulent and unfair trade practices in the securities market.
2. To prohibit insider.
3. To educate investors.
4. To promote fair practices and code of conduct in securities market.

Developmental Functions:

1. To promote training of intermediaries of the securities market.
2. To develop capital markets by adapting a flexible approach.

Regulatory functions:

1. SEBI has framed rules and regulations and code of conduct to regulate the intermediaries such as brokers, bankers, underwriters etc.
2. Controlling insider trading and takeover bids.
3. It registers the working of mutual funds.
4. It conducts inquiries and audit of stock exchange.
5. Prohibition of fraudulent and unfair trade practices.

Question5. Explain the various segments of NSE.

Answer: NSE has two main segments:

Whole sale debt market segment: This provides a trading platform for fixed income securities such as central government securities, treasury bills, state development loans, bonds issued by public sector undertakings, etc.

Capital Market Segment: It provides an efficient and transparent platform for trading in equity, preference, debentures, etc.