



<b>Class: XII</b> <b>Entrepreneurship</b>	<b>Department: Commerce</b>	
<b>Worksheet No:6</b>	<b>Topic: Mobilization Of Resources</b>	

### A. Fill in the blanks

1. The role of transferring financial resources from the surplus units to the deficit units is what is referred to as \_\_\_\_\_ ["Financial Intermediation"]
2. A \_\_\_\_\_ may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneurs. [capital market]
3. \_\_\_\_\_ is basically to facilitate transfer of resources from the savers to the entrepreneurs. [Primary market]
4. \_\_\_\_\_ involves raising of funds directly from the public through the issue of prospectus. [Public issue / Going public]
5. \_\_\_\_\_ means the direct sale by a company of its securities to a limited number of sophisticated investors. [Private placement]
6. Most \_\_\_\_\_ are current or retired executives, business owners or high net worth individuals who have the knowledge, expertise, and funds that help start-ups match up to industry standards. [angel investors]
7. \_\_\_\_\_ Looks for an "exit" in the time frame of typically 3-7 years [ venture capitalist]

### True or False

8. Capital Markets play a very vital role of a financial intermediary- True
9. Private placement is a method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis. [false] Answer is rights issue.
10. Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days. [ True]
11. Angel investors make long-term investment in growth-oriented small or medium firms. [ False] Answer- venture capital finance

### Choose the correct answer

12. This method enables employees to become shareholders and share the profits of the company
  - a) Stock option
  - b) Rights issue
  - c) Public issue
  - d) Private placement
13. Direct sale by a company of its securities to a limited number of sophisticated investors like LIC, UTI, Army Group Insurance is called as

- a) Stock option
- b) Rights issue
- c) Public issue
- d) Private placement**

14. \_\_\_\_\_ is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.

- a) Venture capitalist
- b) Angel investor**
- c) Sole proprietor
- d) investor

15. They may invest in one in four hundred opportunities presented to it. Identify the concept.

- a) Venture capitalist**
- b) Angel investor
- c) Sole proprietor
- d) Share holder

16. 'It is an organized mechanism meant for effective and smooth transfer of financial resources from the investors to the entrepreneurs.'

(a) Identify the mechanism and list its different types.

Answer: **capital market.**

Capital market is divided into primary market and secondary market.

17. This involves raising of funds directly from the public through the issue of prospectus. An enterprise organizing itself as a public limited company can raise the required funds commonly by preparing a prospectus.

a) Identify the Method of raising funds.

**Public issue**

b) Explain any two merits and two demerits of the above identified concept.

**Merits**

- Access to capital-for growth and expansion of business
- Mergers and acquisitions: Public stock of a company can be used for businesses to grow through acquisitions.
- Higher valuations: Public companies are typically valued more than private companies.
  - Benchmark trading price: The trading price of a public company's stock serves as a benchmark of the offer price of other securities.
  - Capital formation: Raising capital later is typically easier because of the extra liquidity for the investors.
  - Incentives: Stock options and stock incentives can be very helpful in attracting employees.
  - Reduced business requirements: While an underwritten initial public offering requires significant earnings, the lack of earnings does not keep a private company from going public.
  - Less dilution: There is less dilution of ownership control compared to an IPO.

- Liquidity: A public company provides liquidity for management, minority shareholders, and investors.
- Prestige: Added prestige and visibility with customers, suppliers, as well as the financial community.

#### Drawbacks

- Increasing accountability to public shareholders
- Need to maintain dividend and profit growth trends
- Becoming more vulnerable to an unwelcome takeover
- Need to observe and adhere strictly to the rules and regulations by governing bodies

18. It is an equity-based investment in a growth-oriented small to medium business to enable the investors to accomplish objectives, in return for minority shareholding in the business or the irrevocable right to acquire.

a) Identify the concept

#### **Venture capital investment.**

b) Explain its features.

- 1) It is basically equity finance in relatively new companies.
- 2) It is long-term investment in growth-oriented small or medium firms.
- 3) Venture capitalist not only provide capital but also business skills to investee firms.
- 4) It involves high risk-return spectrum.
- 5) It is a subset of private equity.
- 6) The venture capital institutions have a continuous involvement in the business after making the investment.
- 7) Such institutions disinvest the holdings either to the promoters or in the market.

19. He/ she is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.

a) Identify the concept discussed

#### **Angel investor**

b) Explain the features of the identified concept.

- 1) Most angel investors are current or retired executives, business owners or high net worth individuals who have the knowledge, expertise, and funds that help start-ups match up to industry standard
- 2) As angel investors bear extremely high risk and are usually subject to dilution from future investment rounds. They expect a very high return on investment.
- 3) Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days.
- 4) Their objective is to create great companies by providing value creation, and simultaneously helping investors realize a high return on investments.
- 5) They have a sharp inclination to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs by making use of their vast experience.