



INDIAN SCHOOL AL WADI AL KABIR

Class: XI

Department: Commerce

Worksheet No:1

Topic: Financial Markets

Select the correct option:

1. A Treasury bill is an instrument of _____.
 - a. Interest
 - b. Dividend
 - c. Short term debt**
 - d. Long term debt
2. Securities Exchange Board of India (SEBI) was established in _____.
 - a. 2001
 - b. 1984
 - c. 1988**
 - d. 1956
3. Treasure Bill is also known as _____.
 - a. Fixed interest Bonds
 - b. Flat Rate Bonds
 - c. Low Interest Bonds
 - d. Zero Coupon Bonds**
4. Which of the following statements is not true with regard to primary market?
 - (a) Is also known as the old issues market.**
 - (b) It facilitates the transfer of investible funds from savers to entrepreneurs.
 - (c) It deals with new securities being issued for the first time.
 - (d) It is also known as the new issues market.
5. Which of the following statements is not true with regard to Treasury bills?
 - (a) Are issued in the form of a promissory note.
 - (b) They are highly liquid and have assured yield
 - (c) They carry high risk of default.**
 - (d) They are available for a minimum amount of ₹25,000 and in multiples thereof.
6. Suppose an investor purchases a 91 days Treasury bill with a face value of ₹2,00,000 for ₹1,92,000. By holding the bill until the maturity date, the

investor receives ₹2,00,000. What is the amount of interest received by him?

- (a) ₹8,000
- (b) ₹80,000
- (c) ₹3,92,000
- (d) ₹2,000

7. A rise in call money rates makes other sources of finance such as commercial paper and certificates of deposit

- (a) Expensive in comparison with banks who raise funds from these sources.
- (b) Cheaper in comparison with banks who raise funds from these sources.
- (c) Creates no effect on other sources.
- (d) None of the above

8. A company can raise capital through the primary market in the form of

- (a) Equity shares
- (b) Preference shares
- (c) Debentures
- (d) All of the above

9. Match the following:

Column A	Column B
a) Regulatory Functions	i) Undertaking steps for investor protection.
b) Development Functions	ii) Regulation of takeover bids by companies.
c) Protective Functions	iii) Conducting research and publishing information useful to all market participants.

- a) i,ii,iii
- b) i,iii,ii
- (c) ii,iii,i
- d) iii,ii,i

10. PK Enterprises Limited has sold an entire lot of 5,00,000 equity shares @ ₹9 each to Prosperous Bank Private Limited. The bank in turn will offer the shares to general public for subscription @ ₹11 per share. Identify the method of floatation being described in the given lines.

- (a) Private placement
- (b) Offer through prospectus

(c) Offer for sale

(d) Rights issue

Fill in the Blanks

11. Raj Enterprises wishes to invest ₹1,10,000 in treasury bills. _____ is the maximum number of treasury bill it can buy with this fund. (4)
12. _____ Work as an intermediary between the savers and the investors by mobilising funds between them. (FINANCIAL MARKET)
13. Jaykant is holding hundred shares of a company. He has been given a privilege offer to subscribe to a new issue of shares of the same company in proportion of 2:1 to the number of shares already possessed by him. _____ method of floatation being described in the above case. (RIGHT ISSUE)

True or False

14. Under Private Placement Company sell securities to some selected institutions. (TRUE)
15. Money market is situated at specific locations. (FALSE)
16. Capital market funds are raised for a short period of time (FALSE)
17. One of the common irregularities noted by the Securities and Exchange Board of India during the inspection of a stock exchange was that it was dealing with unregistered sub-brokers. Development regulation is the related function of Securities and Exchange Board of India discussed above. (FALSE)

SOLVED BOARD QUESTIONS

18)

A very famous article was published in a finance magazine. A portion of that article is present here:

Financial market is not a usual market where you buy commodities but a special place where one can have all the necessary information about the different securities traded in the market. The buyers on the one hand get to know about the securities and they get a place where securities are sold helping reduce the wastage of time, effort and money. The financial experts say otherwise the job of the people involved in the securities transactions would have been really difficult. Securities get a buyer on the one hand and the seller on the other hand on a common platform—this helps in easy conversion of securities into cash. In the economies where there is no stock exchange the funds remain blocked. The money trapped in the houses should come out and flow in the economy and when they are invested in the shares of a company they have the capability to attain the maximum value. People would always like to sell

securities on their own conditions. No government intervention can predict the price of securities. The stock market is a place which runs on the forces of demand and supply thus giving a security its price depending upon its demand. One wonders how the economy of a company can grow without the existence of financial market. Identify explain the functions of financial market discussed in the above case.

Answer:

The various functions of financial market highlighted in the above case are:

1. **Financial market reduces the cost of transactions.** The buyers on the one hand get to know about the securities and they get a place where securities are sold helping reduce the wastage of time, effort and money.
2. **Financial market provides liquidity to financial assets.** Securities get a buyer on the one hand and the seller on the other hand on a common platform-this helps in easy conversion of securities into cash.
3. **Financial market helps in mobilization of savings and channelises them to the most productive use.** The money trapped in the houses should come out and flow in the economy and when they are invested in the shares of a company they have the capability to attain the maximum value.
4. **Financial market helps in facilitating price discovery of financial assets.** The stock market is a place which runs on the forces of demand and supply thus giving a security its price depending upon its demand.

19.A bank named 'Dhan Sangraha Karta' allows Kapoor family to deposit their money time and again in it. It gives a definite return to this family which is in the form of interest. To get this interest the money stored in the household of Kapoor family gets entry into this bank. Nearby there is a stock exchange, Mr. Raj an Kapoor, who is the head of the family, goes there and buys securities. He says that in this way more return is earned by him on his saved money though the risk is also there.

1. Identify the process in above case performed by the bank and the stock exchange.
2. What are the roles of the bank and the stock exchange with respect to each other?
3. Name a condition for the bank to perform its role in this process.
4. Name a condition for the stock market to perform its role in this process.

Answer:

1. The process performed by the bank and the stock exchange is 'Financial Intermediation.
2. The bank and the stock exchange are competing intermediaries in the financial system. The household is making a choice between the bank and the stock exchange and this choice is given by the financial system to them.

3. The bank should provide a higher rate of return to the household saving than what it would get by lying passive in the household itself. Since the money will only decrease in value there will be no return.
4. The stock exchange will help the household invest money in a company's security. The chances of growth of money could be highest here as the money is generally invested in companies which show the chances of the best possible growth.

20. 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 funds into their most productive investment opportunity.

1. Name the function being performed by the market in the above case.
2. 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.

Answer:

1. Allocative function.
2. Money market.

Difference between Capital and Money market:

Basis	Capital-market	Money-market
(i) Participants	The participants are financial institutions, banks, corporates, foreign investors and retail investors.	The participants are RBI, financial institutions, banks and corporates.
(ii) Instruments	Instruments traded are Shares, Debentures and Bonds.	Instruments traded are Treasury bills, Commercial papers, Certificates of deposit, Call money and Commercial bills.

(iii) Investment Outlay	Investment outlay is small.	Investment outlay is large.
(iv) Duration	Capital Market deals in medium term and long-term securities.	Money market deals in short-term securities.
(v) Liquidity	Capital market securities are comparatively less liquid.	Money market securities are comparatively more liquid.

21. Ramesh buys a financial asset from the RBI. This financial asset is an instrument of short-term borrowing. He has bought it because he doesn't want to take risk and wants an assured return. This instrument is a promissory note. It is highly liquid. This instrument is also known as Zero Coupon Bond. On this instrument is written T-91.

1. Which financial asset is indicated in the above case?
2. On whose behalf does the RBI issue this instrument?
3. Why is this instrument called as the Zero Coupon Bond?
4. What does T-91 denote here?
5. What is the minimum amount for which this instrument is available?

Answer:

1. The financial asset which is indicated in the above case is 'Treasury Bill'.
2. The RBI issues this instrument on the behalf of the Government of India.
3. The instrument is called as Zero Coupon Bond because the interest rate given by the bank is not given openly. The interest in fact comes in the form of discount which is given on the face value. The instrument is redeemed at par (on the written face value). So the instrument is issued at discount.
4. T-91 here denotes the maturity period of the Treasury bill which is here 91 days.
5. The minimum amount for which T- Bills are available is ₹ 25,000. For a higher value it is given in the multiples of ₹ 25,000.

22. A company uses a financial instrument for bridge financing. The instrument here is short term, low risk, unsecured and highly liquid. It needed to buy machinery for which it issued equity. This turned out to be expensive as this issue involved floatation costs. The company is a large and creditworthy and this method has come up as a great help to it.

1. Which financial instrument is indicated in the above case?
2. Which type of instrument is this?
3. Name the types of floatation costs which are generally involved?
4. How has this method helped the company?
5. Name two money market instruments which are issued at discount and redeemed at Par.

Answer:

1. The financial instrument indicated in the above case is 'Commercial Paper'.
2. This is a money market instrument.
3. The types of floatation costs involved here are:
 - Brokerage.
 - Publishing costs.
 - Advertising costs.
 - Underwriter's commission.
4. This method has helped the company by providing short-term funds for its seasonal and working capital needs.
5. The two money market instruments which are issued at discount and redeemed at par are:
 - Treasury bill
 - Commercial paper.

23. 'Dhan Samudra' is a bank, which needs immediate cash. This has been the situation since the RBI chose to increase the CRR (Cash Reserve Ratio). It is looking for other banks to meet its cash requirements by borrowing from other banks in the industry. However, it resorts to a very expensive source of fund. This source of fund has an inverse relationship with other sources of funds like commercial paper and certificates of deposit.

1. Which financial instrument is highlighted In the above case?
2. How does increased CRR change the cash requirements by banks?
3. Why this financial instrument considered an expensive source of finance?
4. What type of inverse relationship exists between this instrument and commercial paper or certificates of deposit?

Answer:

1. The financial instrument highlighted in the above case is 'Call Money'.
2. The increase in CRR (Cash Reserve Ratio) makes a bank keep a definite amount of cash. For example, if CRR is 5% then bank will have to keep 5% of its money as the cash reserve which it will not touch. Thus the ability of the bank to give loans is reduced thus reducing liquidity in the market.

3. Call Money is considered an expensive source of finance because it is made available to the banks at a very short notice. The interest paid by the banks seeking call money is call rate. The call rate is highly volatile and changes on an hourly basis.
4. The inverse relationship which exists between call money and these instruments is that with the rise in the call money rates these sources become cheaper. So the banks have the option of raising funds from these sources in a comparatively cheaper manner.

24. Nishant is a big supporter of the vital role played by the stock exchange in securing wider circulation of ownership of companies to the common people and supports the education of the common public about the positive effects of making investments. However, he knows nothing spreads very fast in public and takes its own time. He knows that it is only due to the presence of the stock markets that a continuous market is made available to the buying and selling of the securities. People don't want late results; they want everything instant. True investor knows that there should be knowledge before the habit of making investments. The knowledge about the companies participating should be there before any big decision is taken. Most of the people however, get attracted to the stock market as it allows speculative activity within limits which helps in liquidity of the shares in the stock market. We have different news papers which give a lot of news these days about strictness in the stock market. All this is happening today because scams took place in the 80s. But now everything takes place in legal framework providing safe and fair deal in the market. It can be expected that in the future days to come things are going to get better for investors and issuers, not to mention the intermediaries.

Identify and explain the functions of stock exchange discussed in the above para.

Answer:

The different types of functions of stock exchange highlighted in the above case are:

1. **Stock exchange helps in the spreading of the equity cult.** Nishant is a big supporter of the vital role the stock exchange plays in securing wider circulation of ownership of companies to the common people and supports the education of the common public about the positive effects of making investments.
2. **Stock exchange helps in providing liquidity and marketability to the traded securities.** He knows that it is only due to the presence of the stock markets that a continuous market is made available to the buying and selling of the securities.
3. **Stock exchange attracts the investor by providing scope for speculation.** Most of the people however, get attracted to the stock market as it

allows speculative activity with the healthy limits which help in liquidity of the shares in the stock markets.

4. **Stock exchange secures safety of transaction of the securities.** But now everything takes place in legal framework providing safe and fair deal in the market.

25. Ashish selects a person who is authenticated to buy or sell securities on his behalf. He is registered by SEBI. Then through this person Ashish opens an account with a bank. Then he takes the next step. He gives this person an order in which he specifies the number and types of securities to be bought or sold. The process moves forward. After getting the instructions from Ashish the selected person buys and issues d' paper. The paper contains the name and price of securities, brokerage charges and the name of the parties involved. Then comes the concluding stage of the process. Here, the trading of securities is done by the selected persons on behalf of Ashish.

1. Identify the process highlighted in the above case.
2. Which type of account is being indicated here?
3. What is the role of bank here?
4. What is the role of the person he has chosen?
5. What one condition should be met when giving orders for the purchase of securities?
6. What is the name of the paper highlighted above?
7. What is the last stage of the process called? Does it have any specific feature?

Answer:

1. The process highlighted in the above case is 'Trading procedure on a Stock Exchange'.
2. The type of account indicated here is 'Demat Account'.
3. The bank is the 'Depository Participant'.
4. The person chosen here is the 'Broker'.
5. The condition which must be met is that the securities traded should be of the listed companies.
6. The name of the paper which is highlighted above is 'Contract Note'.
7. The last stage of the process is called 'Settlement'. The specific feature is the T+2 rolling settlement feature. It means that the trading of security taking place on a particular day will get settled after two days. For example trading taking place on Wednesday will be settled by Friday.

26. Identify the type of function of SEBI in the following cases:

1. Rajeev was unwilling to buy shares in the stock market as he was told by someone that stock market is a place where various malpractices take place. He

decides to discuss the matter with his friend who explains to him how SEBI takes care of the interests of the investors.

2. Pankaj wants to become a stock broker. When he approaches people and asks them to get started as investor through him they ask for a certificate which the SEBI must have given him. He becomes aware of the fact that in order to function as a stock broker he will have to get registered with SEBI.
3. Kirti Steels already has issued shares in the stock market and is a well known name among the people. Recently it issued shares but had to go through the proper audition process and thorough inspection about the various requirements to be fulfilled as an issuer.
4. Recently some people were caught in some of the malpractices like insider trading. The SEBI has decided to take strict action and cancel their candidature. Further penalties are also to be imposed on them.
5. A magazine has published a report on how SEBI is serious about training of the intermediaries and deciding their code of conduct. A lot of research has been going on in various related areas and the information of use is being published so that various participants can get useful results from it.
6. Some workshops are being organized to create awareness among the investors. The programme will not stop here. There is going to be a proper education of the investors. After the workshop is over a test will be conducted to check the knowledge and applicative ability of the investors.

Answer:

1. Protective function
2. Regulatory function
3. Regulatory function
4. Protective function
5. Development function
6. Development function