

Financial Markets

Previous Years' CBSE Board Questions

10.1 Financial Markets: Concept

LA (5 marks)

1. What is meant by 'Financial Market'? State any four functions of financial market. (Term-II, 2021-22)

10.2 Money Market: Concept

SA I (3 marks)

2. Currently, the banking sector in the Indian economy is facing lots of problems. The rates of interest that banks are paying on deposits have sharply decreased; as a result, banks are able to collect lesser amounts of deposits. Due to the policies of the Reserve Bank of India, lending rates have also decreased. The automobile industry is also facing a lot of problems and thus they have also reduced the prices of cars. This has encouraged people to take car loans from banks as the interest rates on loans, along with prices of cars in the automobile sector are declining. Due to this position of tight liquidity, 'The Oberoi Bank Ltd.' decided to raise funds by issuing an unsecured, short-term instrument which could be purchased by corporations, companies and individuals.

(a) Identify and explain the money market instrument used by 'The Oberoi Bank Ltd.' to raise funds.

(b) Also explain the money market instrument used by the banks to maintain Cash Reserve Ratio. (2020 C)

LA (5 marks)

3. Explain 'Treasury Bill' and 'Call Money' as instruments of 'Money Market' (Term-II, 2021-22 C)

10.3 Capital Market and Its Types (Primary and Secondary)

MCQ

4. Adapting to a change in consumer preference towards online shopping, 'Fast-Service' started a grocery delivery app. It is a platform that ensures 10-minute deliveries of groceries. Because of this service, 'Fast-Service' earned huge profit within a year. It planned to expand its operations and decided to raise funds by directly issuing its securities to investors.



The market through which 'Fast-Service' has decided to raise funds for its expansion is

- (a) Money market
- (b) Primary market
- (c) Secondary market
- (d) Both Primary and Secondary markets (2023)

5. Capital Market instruments are riskier both with respect to returns and principal repayment as compared to Money Market instruments. This highlights the following point of difference between 'Capital Market' and Money Market':

- (a) Instruments
- (b) Duration
- (c) Safety
- (d) Liquidity. (2023)

Read the following paragraph and answer question nos. 6-9 on the basis of the same:

Mayank Ltd. is a real estate company. Since its establishment, the company acquired a good market share. With the boom in the Indian economy, the real estate sector is also witnessing a boom due to lower interest rates on housing loans and accompanying income-tax concessions. For meeting this increasing demand, the finance manager of the company suggested to raise ₹ 1,250 crore by issuing shares and ₹ 750 crore by way of loan from the bank. He was of the opinion that this will increase per share earnings of the shareholders. The directors of the company wanted to raise capital more quickly and suggested that it would be better to allot the securities to some selected individuals. They also suggested that instead of taking loan from the bank the privilege can be given to existing shareholders to subscribe to a new issue of shares for ₹ 750 crore.

(2021 C)

6. The method of raising ₹ 1,250 crore suggested by the finance manager is:

- (a) Offer for sale
- (b) Offer through prospectus
- (c) Private placement
- (d) e-IPOs.



7. 'The directors of the company wanted to raise capital more quickly and suggested that it would be better to allot the securities to some selected individuals. In the above lines the method of floatation of new issues suggested by the directors is:

- (a) Offer for sale
- (b) Offer through prospectus
- (c) Private placement
- (d) e-IPOs.

8. 'They also suggested that instead of taking loan from the bank the privilege can be given to existing shareholders to subscribe to a new issue of shares for ₹ 750 crore'. The method of floatation of new issues discussed in the above lines is:

- (a) Offer for sale
- (b) Offer through prospectus
- (c) Private placement
- (d) Rights issue.

9. The market through which the financial manager and the directors wanted to collect funds is:

- (a) Money Market
- (b) Capital Market
- (c) Both (a) and (b)
- (d) Neither (a) nor (b).

VSA (2 marks)

10. 'Gujarat Textiles Ltd.' needs to raise a fund of ₹ 80 crore. It cannot afford the cost of public issue, so it was decided to allot its equity shares to institutional investors like LIC and some selected investors. Identify and explain the method of floating new issues used by Gujarat Textiles Ltd. (Term-II, 2021-22)

SA I (3 marks)

11. Explain 'Offer for Sale' and 'Rights Issue' as methods of floatation of new issues in the primary market. (Term-11, 2021-22 C)

12. 'Financial markets are classified on the basis of the maturity of financial instruments traded in them. Name the market in which the instruments with more than one year maturity are traded. Also state any two features of this market. (Delhi 2019)

LA (5 marks)

13. Differentiate between 'Capital market' and 'Money market' on the following basis:

- (i) Participants; (ii) Instruments; (iii) Investment outlay;
(iv) Duration and (v) Liquidity. (Delhi 2014, Delhi 2014 C)

OR

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

- (i) Safety; (ii) Expected return; (iii) Meaning:
(iv) Instruments and (v) Duration (Delhi 2014)

ET (6 marks)

14. Distinguish between Primary market and secondary market. (AI 2015 C)

10.4 Stock Exchange : Functions and Trading Procedure

SA I (3 marks)

15. (i) Name the process of holding securities in an electronic form.
(ii) Name any two participants of Money Market.
(iii) Name the depositories that hold securities in electronic form. (2023)
16. The stock Exchange performs many vital functions in today's commercial world? Explain any three such functions. (AI 2015)

SA II (4 marks)

17. Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues. To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. It also ensures wider share of ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments. Various functions performed by the Stock Exchange are discussed in the above para. By quoting lines from above para, state any four functions of stock exchange. (AI 2019 C)

OR

State any four functions of 'Stock Exchange'. (Delhi 2016, AI 2016)

10.5 Securities and Exchange Board of India (SEBI) - Objectives and Functions

VSA (2 marks)

18. 'Training of intermediaries of the securities market' is a development function performed by Securities and Exchange Board of India.

State two other development function.

(Term-II, 2021-22 C)

SA I (3 marks)

19. State any three protective functions of Securities and Exchange Board of India.

(2023)

20. State any three objectives of Securities and Exchange Board of India.

(2021 C)

21. 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 friends Sudhir and asked him to invest ₹ 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 ₹ 7 crores. He earned a profit of 2 crores. He gave ₹ 1 crore to Mr. Sanjay Nehra and kept ₹ 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 by SEBI in the above case.

(Delhi 2016, AI 2016)

SA II (4 marks)

22. Keeping in mind the emerging nature of the securities market in India, Securities and Exchange Board of India was entrusted with the twin task of both regulation and development of the securities market.

State any two regulatory and two development functions of it.

(2023)



CBSE Sample Questions

10.2 Money Market and Its Instruments

SA I (3 marks)

1. State any three money market instruments.

(2020-21)

10.3 Capital Market and Its Types (Primary and Secondary)

MCQ

2. Match the various terms of Financial Markets Column-I with their respective Statements in Column-II.

Column I		Column II	
A.	Financial market	(i)	It is also known as the Stock market.
B.	Primary market	(ii)	It is a market for creation and exchange of financial assets.
C.	Secondary market	(iii)	It is also known as New issue market.

(a) A-(ii), B-(iii), C-(i)

(b) A-(i), B-(iii), C-(ii)

(c) A-(iii), B-(ii), C-(i)

(d) A-(i), B-(ii), C-(iii)

(2022-23)

Read the following text and answer questions 3-6 on the basis of the same:

ISQAA SOLAR limited is searching options to raise ₹ 20,000 crore from the primary market for diversification and modernisation of existing projects. It hired the services of a renowned financial consultancy firm, DHAN LAXMI PVT. LTD. for suggesting options for the same DHAN LAXMI PVT. LTD. suggested a list of options to the Board Directors of the company. It was decided that for the immediate requirement of ₹ 1500 crore the company will give a privilege to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company. ₹ 4500 crore would be raised by allotment of securities to a consortium of financial institutions, instead of inviting subscription from the public by making a direct appeal to investors to raise capital. It was further decided to raise capital to the tune of ₹ 6000 crore through an issuing house. All these options were accepted by the Board of Directors. The Board further decided to raise ₹ 8000 crore through the online system of the stock exchange by entering into an agreement with the exchange.

(2020-21)

3. Identify the method of floatation of new issues in the primary market, not taken up by ISQAA SOLAR LTD.

- (a) Offer for sale (b) Rights issue
(c) E-IPO (d) Offer through prospectus

4. " ₹ 4500 crore would be raised by allotment of securities to a consortium of financial institutions, instead of inviting subscription from the public by making a direct appeal to investors to raise capital." Identify the method of floatation of new issues in the primary market being discussed above, which the company has decided to use.

- (a) Offer for sale (b) Private placement
(c) Right Issue (d) Offer through Prospectus

5. Identify the reason which has made the firm raise funds from the institutional investors.

- (a) It helps to raise funds quickly (b) It is not expensive
(c) Both a & b (d) None of the above.

6. How much money was raised by the company through E-IPO's

- (a) ₹ 8000 crore (b) ₹ 4500 crore
(c) ₹ 20,000 crore (d) ₹ 6000 crore

VSA (2 marks)

7. 'MYKAA Limited 'is dealing in all types of cosmetic products. It is enjoying increased demand for its product during the last few years. For the purpose of expansion, the company needs 100 crore as additional capital. The company decides to raise funds through equity shares. Chirag Kapoor, the finance manager of the company recommended that the shares may be sold through issuing houses or brokers. Identify and explain the method recommended by Mr. Kapoor through which the company can raise additional funds for expansion purposes. (Term-II, 2021-22)

10.4 Stock Exchange - Functions and Trading Procedure

MCQ

8. _____ is a number assigned to each transaction by the stock exchange and is printed on the contract note.

- (a) Client code number (b) Unique order code

(c) Permanent account number
number (2022-23)

(d) Depository participant
number

9. Arrange the steps involved in trading procedure at the stock exchange in correct sequence:

(i) Settlement of order

(ii) Opening of Demat Account

(iii) Placing of order

(iv) Execution of order

(a) (ii) → (iv) → (iii) → (i)

(b) (ii) → (i) → (iii) → (ii)

(c) (iii) → (ii) → (ii) → (i)

(d) (ii) → (iii) → (iv) → (i)

(2022-23)

SA I (3 marks)

10. State any three functions performed by the stock exchange.
(2022-23)

10.5 Securities and Exchange Board of India (SEBI) - Objectives and Functions

MCQ

11. Which of the following statement is incorrect?

(a) Providing liquidity to securities is one of the functions of stock exchange.

(b) Process of holding shares in electronic form is known as Dematerialisation.

(c) Securities Exchange Board of India performs the regulatory function of controlling insider trading and imposing penalties for such practices.

(d) Capital market consists of Commercial banks, Development banks and stock exchanges (2022-23)

SA I (3 marks)

12. State any three objectives of the Securities Exchange Board of India.
(2022-23)

13. State the development functions of the Securities and Exchange Board of India. (2020-21)

LA (5 marks)

14. State any five regulatory functions of the Securities and Exchange Board of India. (Term-II, 2021-22)

ANSWERS

Previous Years' CBSE Board Questions

1.

financial Market is a market which facilitates exchange and creation of financial assets.

Four functions of financial market are :-

- Mobilisation of Savings and channelling them into productive Uses :- These determines that the financial market acts as a link between savers and investors, where they are allot savings to the firms for their best productive uses.
- Facilitates Price discovery :- Depending upon the demand and supply of the financial asset price is being fixed. Household acts as suppliers and firms acts as demand.
- Providing liquidity :- There is enough liquidity in such markets which facilitates the the investors to sell and convert it into the cash easily. Financial assets can be a easily converted into cash whenever required.
- Reducing the cost of transactions :- Financial Market provides various information related to price, demand, to the investors and the suppliers. Due to these it helps in reducing the time and money spent by the both the parties to in searching for various information.

[Topper's Answer, 2022]

2. (a) The money market instrument used by 'The Oberoi Bank Ltd.' to raise funds is Certificate of Deposit.

(i) It is an unsecured, negotiable, short-term instruments in bearer form, issued by commercial banks and development financial institutions.

(ii) It can be issued to individuals, corporations and companies during periods of tight liquidity.

(b) The money market instrument used by the banks to maintain Cash Reserve Ratio is Call Money by which banks borrow from each other for a period of one day to fifteen days.



3. (i) Treasury bills:

(a) A treasury bill is an instrument of short-term borrowing by the Government of India, maturing in less than one year.

(b) They are issued by the Reserve Bank of India on behalf of the Central Government to meet its short term requirement of funds.

(c) They are issued in the form of promissory notes and are highly liquid and have negligible risk of default.

(d) They are issued at a price which is lower than their face value and repaid at par and are also known as Zero Coupon Bonds.

(e) They are available for a minimum amount of ₹ 25,000/- and in multiples thereof.

(ii) Call Money:

(a) Call money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio.

(b) Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions.

(c) The interest rate paid on call money loans known as the call rate is a highly volatile rate that varies from one day to another day and sometimes even from one hour to another hour.

4. (b): Primary Market

5. (c): Safety

6. (b): Offer through prospectus

7. (c): Private placement

8. (d): Rights issue

9. (b): Capital Market

10.

Private Placement is the method that is being used by Gujarat Textiles Ltd to raise funds. It is a method of floating new issues where money is raised only from a selected individuals and institutions. It is being done in order to reduce mandatory and non-mandatory expenses.

[Topper's Answer, 2022]



11. Methods of floatation of new issues in the primary market:

(i) Offer for Sale: Under this method, securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stockbrokers.

As the intermediaries offer the new securities to the general public, the company is saved from the complexities and formalities of issuing the securities directly to the public.

(ii) Rights issue: In this method, the existing shareholders are offered the 'right' to subscribe to a new issue of shares according to the terms and conditions of the company. The shareholders are offered new shares in proportion to the number of shares they already possess.

12. In a Capital Market, the instruments with more than one year maturity are traded. A capital market refers to the market that deals in the trading of medium and long-term securities.

The instruments traded in the capital market comprises equity and preference shares, debentures, bonds, etc.

The features of the capital market are as follows:

(i) The capital market acts as a platform that links the savers and investors. It directs the savings of the households to their most productive use. In this way, it adds to the growth prospects of an economy.

(ii) It works strictly according to the guidelines and policies issued by the government.

13. Differences between 'Capital Market' and 'Money Market':

	Basis of difference	Capital Market	Money Market
(i)	Participants	Both individual investors and institutional investors (financial institutions), banks corporate houses etc.,	The participants are Reserve Bank of India, commercial banks, financial institutions, mutual funds and corporate houses.
(ii)	Instruments Traded	The instruments include equity shares, preference shares, bonds, debentures, etc.	The instruments are commercial paper, treasury bills, trade bills, certificate of deposits, etc.
(iii)	Duration of Securities Traded	Medium to long term securities	Short term securities having maximum tenure of one year.
(iv)	Expected Return	Higher return of investment.	Lesser returns.
(v)	Safety	Capital market is more risky.	The instruments of money market are highly secure. Hence, there is very little risk.
(vi)	Liquidity	Securities are liquid and can be easily sold most of the time.	Money market instruments are highly liquid. Discount finance house of India (DFHI) provides a ready market.

14. Differences between primary market and secondary market:

	Basis of difference	Primary market (New Issue Market)	Secondary Market (Stock Exchange)
(i)	Meaning	There is sale of new securities by companies or further (new issues of securities by existing companies to investors).	There is trading of existing shares only.
(ii)	Sale of securities	Securities are sold by the company to the investors directly (or through an intermediary).	Ownership of existing securities is exchanged between investors. The company is not involved at all.
(iii)	Flow of funds	The flow of funds is from savers to investors, i.e., the primary market directly promotes capital formation.	Enhances encashability (liquidity) of shares, i.e., the secondary market indirectly promotes capital formation.
(iv)	Securities	Only buying of securities takes place in the primary market, securities cannot be sold there.	Both the buying and the selling of securities can take place on the stock exchange.
(v)	Price	Prices are determined and decided by the management of the company or by price discovery mechanism.	Prices are determined by demand and supply for the security.
(vi)	Location	There is no fixed geographical location.	Located at specified places but much of trading takes place through the internet.

15. (i) Dematerialisation

(ii) RBI, Commercial Banks, Mutual Funds etc.

(iii) NSDL and CDSL

16. Functions of stock exchange:

(a) Providing liquidity and marketability to existing securities: Stock exchange is a market where securities are bought and sold. This provides liquidity and marketability to already issued securities. It gives investors chance to disinvest and reinvest.

(b) Pricing of securities: A stock exchanges are a mechanism where prices of securities are determined by the forces of demand and supply. It provides a mechanism of constant valuation.

(c) Safety of transactions: The membership of a stock exchange is well-regulated. Dealings take place according to the existing legal framework. This ensures safe and fair deals for both buyer and seller of securities.

17. The functions performed by the Stock Exchange are as follows:

(i) Provide liquidity and marketability - 'Stock exchange creates a continuous market where the securities are brought and sold. It provides a ready platform for the trading of existing securities.

(ii) Spreading Equity Cult 'Stock exchange takes effective steps in educating the public about investments' It encourages wider ownership of securities.

(iii) Facilitates growth and development of the economy - 'It provides a platform for channelising the savings to the most productive use. It gives investors the



chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.

(iv) Ensures safety in transactions 'it ensures that investing people gets a safe and a fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework.

18. Development functions of Securities and Exchange Board of India are:

- (i) Conducting research and publishing information useful to all market participants.
- (ii) Undertaking measures to develop the capital markets by adapting a flexible approach.

19. Protective Functions

- (i) Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
- (ii) Controlling insider trading and imposing penalties for such practices.
- (iii) Undertaking steps for investor protection.
- (iv) Promotion of fair practices and code of conduct in securities market.

20. Objectives of SEBI: The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. Its other objectives are:

- (i) To regulate stock exchanges and the securities industry to promote their orderly functioning.
- (ii) To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
- (iii) To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
- (iv) To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers, etc., with a view to make them competitive and professional.

21. Functions that are performed by the SEBI are:

(a) Regulatory Functions: "On regular inspection and by conducting enquires of the brokers involved, SEBI was able to detect the irregularities. Under regulatory



functions, SEBI calls for information by undertaking inspections conducting audits of stock exchange and intermediaries.

(b) Protective functions: "The SEBI imposed a heavy penalty on Mr. Sanjay Nehra" which will act as a deterrent to others. Under protective functions, SEBI prohibits fraudulent and unfair trade practices in the securities market e.g., price rigging, making misleading statements in prospectus, manipulation of price etc. It promotes fair practices and code of conduct in securities market.

22. Regulatory Functions

(i) Registration of brokers and sub brokers and other players in the market.

(ii) Registration of collective investment schemes and Mutual Funds.

(iii) Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.

Development Functions

(i) Training of intermediaries of the securities market.

(ii) Conducting research and publishing information useful to all market participants.

(iii) Undertaking measures to develop the capital markets by adapting a flexible approach.



CBSE Sample Questions

1. Money market instruments are:

(i) Treasury Bill: It is basically an instrument of short-term borrowing by the Government of India maturing in less than one year.

(ii) Commercial paper: It is a short-term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period.

(iii) Call money: It is short term finance repayable on demand, with a maturity period of one day to fifteen days used for inter bank transactions.

2. (a): A - (ii), B - (iii), C - (i)

3. (d): Offer through prospectus

4. (b): Private placements

5. (c) Both (a) and (b)

6. (a): ₹ 8000 crore

7. Offer for Sale: Under this method, securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers. In this case, a company sells securities embolic at an agreed price to brokers who, in turn, resell them to the investing public.

8. (b): Unique order code

9. (d): (ii), (iii), (iv), (i)

10. Following are the functions of stock exchange:

(i) Providing liquidity and marketability to existing securities.

(ii) Pricing of securities on the stock exchange is determined by the forces of demand and supply.

(iii) Safety of transaction is ensured as membership of a stock exchange is well regulated and its dealings are well defined.

(iv) Contributes to economic growth through the process of disinvestment and reinvestment.

(v) Spreading of equity cult by ensuring wider ownership by way of regulating new issues.

(vi) Providing scope for speculation by ensuring speculative provisions of law for it to take place in a restricted and controlled manner.



11. (c): Securities Exchange Board of India performs the regulatory function of controlling insider trading and imposing penalties for such practices.

12. Following are the objectives of SEBI:

(a) To regulate stock exchanges and the securities industry to promote their orderly functioning.

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

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

(d) 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.

13. Development Functions of Securities and Exchange Board of India:

(i) Training of intermediaries of the securities market.

(ii) Conducting research and publishing information useful to all market participants.

(iii) Undertaking measures to develop the capital markets by adapting a flexible approach.

14. Regulatory functions of Securities and Exchange Board of India:

(i) Registration of brokers and sub-brokers and other players in the market.

(ii) Registration of collective investment schemes and Mutual Funds.

(iii) Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.

(iv) Regulation of takeover bids by companies.

(v) Calling for information by under-taking inspections, conducting enquiries and audits of stock exchanges and intermediaries.