



INDIAN SCHOOL AL WADI AL KABIR

Class: XI

Department: Commerce

Worksheet No: 1

Topic: Financial Markets

Q.1. 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.
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- (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

11. STATEMENT I: Electronic holdings can be converted into physical certificates with the process of dematerialization.

STATEMENT II: There is no danger of theft, loss or forgery of share certificates in dematerialization.

Choose the correct option from the following:

- a) Statement I is true and II is false
- b) Statement II is true and I is false
- c) Both the statements are true
- d) Both the statements are false

12. Match the various terms of Financial Markets Column - I with their respective Statements in Column-II (BP 22-23)

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) (ii), (iii), (i)

(b) (i), (iii), (ii)

(c) (iii), (ii), (i)

(d) (i), (ii), (iii)

13. Which of the following statements is incorrect? (BP 22-23)

- a. Providing liquidity to securities is one of the functions of stock exchange
- b. Process of holding shares in electronic form is known as Dematerialization
- 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.

14. Which of the following statements is not true with regard to money market?

- (a) It involves low market risk.
- (b) It is situated at specific locations.
- (c) Deals in unsecured and short-term debt instruments.
- (d) The instruments traded are highly liquid.

15. 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.

16. Which of the following statements is not true with regard to Commercial paper?

- (a) Is a long-term unsecured promissory note with a fixed maturity period.
- (b) It usually has a maturity period of 15 days to one year.
- (c) It is sold at a discount and redeemed at par.
- (d) Companies use this instrument for bridge financing.

17. The RBI sells Naman a financial asset. This financial asset is a short-term borrowing instrument. He bought it because he doesn't want to take any risk and wants a guaranteed profit. A promissory note is a type of financial instrument. It's a very liquid substance. Zero-Coupon Bond is another name for this instrument. T-65 is inscribed on this instrument.

In the example above, which financial asset is mentioned?

- (a) Call money
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- (b) Treasury bills
- (c) Commercial paper
- (d) Commercial bill

Q.2. Fill in the Blanks

1. Raj Enterprises wishes to invest ₹1,10,000 in treasury bills. _____ is the maximum number of treasury bill it can buy with this fund.
2. _____ Work as an intermediary between the savers and the investors by mobilising funds between them.
3. 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.

Q.3. True or False

1. Under Private Placement Company sell securities to some selected institutions.
2. Money market is situated at specific locations.
3. Capital market funds are raised for a short period of time
4. 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.

BOARD QUESTIONS

Q. 4. 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.

Q.5. 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.

Q.6. 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.

Q.7. 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?

Q.8. 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.

Q.9. '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?

Q.10. 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.

Q.11. 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?

Q.12. 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.
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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.

Q.13. Veeru works as a waiter in a five-star hotel in Mumbai. while serving the customer he overhears him at the table saying that the he has made profits higher than expected by investing in securities market. So, Ragu also decides to make a nominal investment from his saving in the stock market in pursuit of higher gains:

In context of the above case as a financial consultant, apprise him of the steps involved in the working of a demat system. Veerun has to initiate the following steps.

Q.14. Unicorn Securities Pvt Ltd was established to deal in securities. It was registered as a stockbroker with National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) to trade securities listed at these exchanges. It is also a depository participant with CDSL and NSDL.

In the first three years, it developed its business successfully. After that the composition of Board of Directors changed. Some customers complained to the customer care centre of the company that shares purchased by them and for which the payment has been duly made, were not transferred to their Demat Accounts by 'Unicon securities Pvt. Ltd.'

The executive of customer care centre promised the aggrieved customers that their shares will be transferred to their respective Demat Accounts very soon. But the company delayed the matter and didn't transfer the shares of the customers to their Demat Accounts. This eroded investors' confidence and multiplied their grievances.

(i) Identify the step of trading procedure in a stock exchange which has not been followed by 'Unicon Securities Pvt. Ltd.

- a) Opening a demat account
 - b) Placing the order
 - c) Executing the order
 - d) Settlement
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