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**SAINTGITS COLLEGE OF APPLIED SCIENCES**

**Internal Assessment Examination, September 2019**

**B.Com Third Semester (Computer Applications & Taxation)**

**FINANCIAL MARKET & OPERATIONS**

**ANSWER SCHEME**

**Section A**

*Answer any 10 questions. Each question carries 2 marks.*

1. What is Call Money?

It is a market where short term surplus funds of commercial banks and other financial institutions are traded for a period of 1 to a maximum of 14 days.

1. What are financial systems?

It is a set of institutions, instruments and markets which foster savings and channelize them to their most efficient use.

1. What is IPO?

Initial public offer. When a company offer shares directly to public a fixed number of shares at a stated price known as face value of securities for the first time.

4. What is ASBA?

Application Support by Blocked Amount. SEBI introduced investor friendly way for applying in IPOs. Authorization given to the bank to block the application money for subscribing a particular share. Money is debited from the account only when the allotment is done. Avoids traditional system of furnishing DD or cheques for applying in IPOs

5. Who is a speculator?

It is a person or entity who is willing to take large risk and sacrifice the safety of principal in return for potentially large gains.

6. What is market index?

it is a numerical value expressing the relative value of a pre-defined groups of shares it measures change in value in a set of values over a period of time.

7. Define derivatives.

It is a financial instrument (an agreement between buyer and seller) whose value is determined by the price of some underlying asset.

8. What is spot price?

It is the current market price at which an asset is bought or sold for immediate payment and delivery.

9. What is open end scheme in mutual fund?

Fund which is offering units for sale which does not specify any duration for redemption or repurchase of units. Investors can buy or sell the units at any time they want based NAV.

10. What is ETF?

Exchange Traded funds are mutual funds listed and traded on stock exchanges like shares.it has features of both open and close ended schemes.

11. What are depositories?

It is an institution which transfers the ownership of securities in electronic mode on behalf of its members.

12. What is ESOP?

Employee benefit plan designed to encourage employees to acquire ownership in company. Employer provides shares to the employee at a reduced price.

**(10 X 2 = 20 marks)**

**Section B**

*Answer any 6 questions. Each question carries 5 marks.*

13. Distinguish between commercial papers and certificates of deposits?

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| Point of Difference | Commercial Paper | Certificate of Deposit |
| Definition | Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP, as a privately placed instrument, was introduced in India in1990 with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. | Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialized form or as a Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period. |
| ELIGIBLE ISSUERS | Corporates, PDs and all-India financial institutions | (i) Scheduled commercial banks {excluding Regional Rural Banks and Local Area Banks (ii) select All-India Financial Institutions (FIs) |
| RATING REQUIREMENT | The minimum credit rating shall be ‘A2’ [Asper rating symbol and definition prescribed by Securities and Exchange Board of India(SEBI)].CRAs-ICRA,CRISIL,FITCH,CARE | NO SUCH REQUIREMENT |
| MATURITY | minimum of 7 days and a maximum of up to one year from the date of issue | not be less than 7 days and not more than one year, from the date of issue. |
| DENOMINATION | CP can be issued in denominations of Rs.5 lakh or multiples thereof. | the minimum deposit that could be accepted from a single subscriber should not be less than Rs.1 lakh |
| INVESTORS | individuals, banking companies, other corporate bodies (registered or in corporate in India) and unincorporated bodies, Non-Resident Indians and Foreign Institutional Investors (FIIs). | individuals, corporations, companies (including banks and PDs), trusts, funds, associations, etc. Non-Resident Indians (NRIs) may also subscribe to CDs, but only on non-reparable basis |

14. What are capital market instruments?

Capital Market is a market for long term instruments.

Instruments are: Equity Shares-Preference Shares-Debentures-Bonds.

15. Describe the functions of SEBI?

Protective function: Protests interest of investors and issuers. Checks Price Rigging, prohibits insider trading, prohibits fraudulent and unfair trade practices, investor education.

- Developmental Function: Provide training to intermediaries, investor education, conducting research and publishing information

- Regulatory Function: To regulate the business in stock exchanges

- Other Function: Registering and regulating the working of stock brokers registrars to an issue, merchant bankers, venture capitalists.

16. Explain the book building process.

Price discovery method

Method of offering shares for a price range is called as a book building method

Company does not fix a price instead fix a range for the price say 80-100 and invites bids from the investors and price is fixed for the most demanded amount

80 is called as the Floor price, 100 is the cap price and mostly bided or fixed price is the cut off price

17. Explain different types of speculators.

Bull- A person who buys shares expecting a rise in their prices to sell them in profit in future.

      An optimist- A bull in the share market often tries to raise the price of the security as the

      animal bull generally throws its victims upwards. - bull in Indian stock exchange is Tejiwala

Bear- A person who sells the shares with the expectation of buying them in future at a reduced price. A pessimist - A Bear Speculator like animal bear who presses its victims down to the ground, tries to bring down the price of the share in the market. Bear in Bombay stock exchange is Mandiwala.

Stag- it is a type bull speculator. He is a person who applies for shares in the new issue market with the intention of selling them at a profit when the allotment is due. -premium hunter- creates fictitious demand.

Lame duck-it is a type of bear speculator. He finds difficult to meet his commitments, when he couldn't arrange shares on the fixed date and where the other party is not willing to postpone. It is short selling.

18. Explain the structure of mutual fund.

* Sponsor

Any company which establishes a mutual fund

SEBI will grant registration for the sponsor company

5 years’ experience in in the field of financial services

* Mutual fund trust/trustees

Trustees are the persons who holds the property of mutual fund

Safeguard the interest of investors

Management of mf is done by the board of directors

* Asset management company

AMC is registered under the companies’ act & approved by SEBI

AMC operates under the supervision of trustees

Primary objective is to manage assets

* Custodian

Registered with SEBI

Safe keeping of securities

19. Differentiate between options and swaps

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| Point of Difference | OPTIONS | SWAPS |
| Meaning | An option is a right, but not an obligation to buy or sell a financial asset on a specific date at a pre-agreed price. | A swap is an agreement between two parties to exchange financial instruments. |
| Requirement for an Exchange | Options can be bought/sold through an exchange or developed over the counter. | Swaps are over the counter financial products. |
| Requirement for a Premium Payment | A premium payment should be paid to acquire an option. | Swaps do not involve a premium payment. |
| Types | Call option and put option are the main types of options. | Interest rate swaps, FX swaps, and commodity swaps are commonly used swaps. |

20. Explain the limitations of derivatives.

* Inadequate Accounting Systems: Proper accounting system for derivative contracts have not introduced
* Speculations: Derivative contracts are the base for future price and hence most beneficial parties are speculators
* Lack of Regulations: Terms and conditions for derivative contracts have not standardized
* Increased Risk: Even though risk is shared, there is a possibility of huge losses

21. Differentiate between primary market and secondary market.

| **BASIS FOR COMPARISON** | **PRIMARY MARKET** | **SECONDARY MARKET** |
| --- | --- | --- |
| Meaning | The market place for new shares is called primary market. | The place where formerly issued securities are traded is known as Secondary Market. |
| Another name | New Issue Market (NIM) | After Market |
| Type of Purchasing | Direct | Indirect |
| Financing | It supplies funds to budding enterprises and also to existing companies for expansion and diversification. | It does not provide funding to companies. |
| How many times a security can be sold? | Only once | Multiple times |
| Buying and Selling between | Company and Investors | Investors |
| Who will gain the amount on the sale of shares? | Company | Investors |
| Intermediary | Underwriters | Brokers |
| Price | Fixed price | Fluctuates, depends on the demand and supply force |
| Organizational difference | Not rooted to any specific spot or geographical location. | It has physical existence. |

**(6 X 5 = 30marks)**

**Section C**

*Answer any 2questions. It carries 15marks.*

22. What is a money market? Briefly explain the important money market instruments in India.

23. Explain the process of trading in stock exchanges.

I. Trading On Exchange Floor/SCREEN BASED

Floor is the physical location for buying and selling. On the floor traders and brokers, surrounded by computers, buy and sell for their clients

Trading Procedure:

* Selection of a Broker
* Opening of Demat account
* Placing the order
* Executing the order
* Settlement
* Settlement of ready delivery contracts
* Settlement of forward delivery contracts

II. Online Trading

* Floor based system was inaccessible to investors and was time consuming
* In order to provide efficiency, liquidity and transparency in securities trading, automated trading platforms introduced
* NSE started the online platform called NEAT in 1993, followed by BOLT in 1995 by BSE
* Online market enables investors to view market in real time and help to reach market conveniently from any place

24. Explain the types of derivatives.

Derivatives are financial instruments whose value is derived from the value from an underlying financial instrument.

Types of Derivatives

Types of derivatives can be classified in to two:

On the basis of underlying asset;

Commodity derivatives: in commodity derivatives, the underlying asset will be a commodity like gold, agricultural products, oil etc.

Financial derivatives; In a financial derivative, the underlying asset will be shares, currencies etc.

On the basis of operational structure;

Forward contracts; arrangement to sell something at a future date

Future contracts; it is a standardized forward contract

Option; it gives the buyer an option to buy or sell an underlying asset at a predetermined price

Swaps; it is an exchange of one financial instrument for another between the parties concerned.

25. Explain various intermediary roles in primary market.

New Issue Market: Market for new issues of securities. Intermediaries includes: Registrar to the Issue-Brokers to the Issue-Bankers to the Issue-Underwriters-Merchant Bankers-Managers to the Issue

**(2 X 15 = 30 marks)**