Ch-10 FINANCIAL MARKET

Important Questions Part-1

---

1. Name the kind of issue in which shares are offered to existing shareholder.
Ans. Right Issue.

2. Give example of any two financial intermediaries.
Ans. a) Banks. b) Financial markets.

3. give examples of any two money market instruments.
Ans. a) Commercial Paper. B) Call Money.

4. what was the traditional system of trading on a stock exchange?
Ans. Outcry or auction system

5. What are the two basis on which transactions on a stock exchange may be carried out?
Ans. Cash basis or Carry over basis.

6. Give names of any two places where regional offices of SEBI is located.
Ans. a) Chennai b) Delhi

7. What is the settlement cycle in NSE.
Ans. T+2

8. the director of a newly established company having paid up equity share capital of 25 crores desire to get its shares traded at all India Level Stock exchange. As finance Manager of the company, Suggest the name of stock exchange for the purpose. Give any 3 reasons in support of your answer.
Ans. The company should get its share listed at OTCEI. The main features of OTCEL are the following-

1) Nation-wide listing, Listing on one exchange one can have transactions with all the counters in the whole country.
2) Exclusive list of companies, on the OTCEL only those companies are listed whose issued capital is 30 Lakh or more.
3) Investor's registration- All the investor doing transactions on the OTCEL have got to register themselves compulsorily.
4) Transparency in transactions- All the transactions are done in the presence of the investor. The rates of buying and selling can be seen on the computer screen.

9. "Securities and exchange Board of India (SEBI) is the watchdog of the securities market." Do you agree ? Give four reasons in support of your answer.
Ans: Hints:- 1) regulatory functions of SEBI.

10:- The director of a company want to modernize its plants and machinery by making a public issue of Shares. They wish to approach stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advice the directors whether to approach stock exchange ro a consultant for new public issue of shares and why? Also advise about the different methods which the company may adopt for the new public issue of shares.
Ans: the directors should approach the consultant for the new public issue of shares as the company wish to make new public issue of shares to modernize its plants and machinery.
Following are the methods which the company may adopt for the new public issue of shares:
i) Right Issue: Since it appears from the question that the company is an existing company as it wants to modernize its plant and machinery, the company by statute is required to offer these shares first to the existing shareholders in proportion to their holdings. If the existing shareholders do not take these shares then company can resort to other methods as given below.
ii) Public Offer through Prospectus: Under this method, the company can directly offer its shares to the public at large after issuing prospectus.
iii) Offer for sale: In this case, an intermediary buys all the shares from the company at agreed price and offers it to the investors at a higher rate.
iv) Private Placement: In this case also an intermediary buys the shares from the company but offers it to only a selected few for sale.

11: the directors of a newly established company having a paid up equity share capital of Rs 25 crores, desire to get its shares traded at an all India level stock exchange. As finance manager of the company, suggest the name of the stock exchange for the purpose. Give any 3 reasons in support of your answer.

Ans: In the given situation, I would recommend the shares of the company to be listed at the outlet the counter exchange of India(OTCEI). The reasons are:

i) In the OTCEI, there is an existence of compulsory market makers(banks/financial institutions) that buys/sells securities of the selected companies which improves the liquidity of the securities.

ii) The Company has a paid-up share capital of less than Rs 3crores. iii) Less stringent conditions are applicable for listing of the securities as compared to those applicable for listing in National Stock exchange of India.

Important Questions Part-2

QUESTIONS FOR PRACTICE

Q1. Sudha Ltd. has sold 1 lakh equity shares of Rs. 10 each at Rs. 12 per share to an investment banker, who offered them to the public at Rs. 20each. Identify the method of floation.

Q2. "Primary markets contribute to capital formation directly. Secondary Market does so indirectly". Explain.

Q3. Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares.

Q4. Charu is a charactered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend. Offer it is observed that when such news becomes public then the share-market jumps up. Considering it, charu purchased large number of company's shares before this news reached the public.

(1) Identify type of malpractice used by charu.
(2) Name the authority which regulates such behaviour. Write any three other functions of this authority.

Q5. A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares. While analysing the issue, finance manager found that floatation costs of the issue would be high and company is already in liquidity crunch. Company deemed it proper to depend on money market instruments for about six months.

(i) Identify the method of floation of capital, mentioned above.
(ii) Besides above shares issue method, mention two other methods.
(iii) Use of what kind of instrument will be appropriate for the money market. Clarify.