

Chapter 10 – Financial Markets

Question 1

Mention the kind of issue in which stock is offered to an existing stockholder.

Answer: Right Issue

Question 2

Name to money market instruments

Answer: a) Treasury Bills b) Commercial Paper

Question 3

Explain the four functions of 'Secondary Market'.

Answer: The four functions of Secondary Market are mentioned below.

- The main function is to provide marketability and liquidity to the present securities and assets. It provides a platform for trading to present customers.
- It allows a constant estimate of the securities and helps in building demand and supply. This estimation helps in determining the price of the securities.
- It guarantees fairness and safety in a transaction.
- It gives a platform for channelising the saving to the most profitable way.

Question 4

State the protective function of the Securities and Exchange Board of India.

Answer: The protective function of the Securities and Exchange Board of India is.

- It examines violations such as violation of rules and insider trading, and disobey to the companies act.
- It provides information about the companies needed by the client.
- It provides guidelines related to the investments in securities.
- It also provides a code of conduct for business practices

Question 5

Write the difference between money market and capital market on the basis of participants, safety, instruments and expected return.

Answer: The difference between the money market and capital market are.

| Basis | Money Market | Capital Market |
|-----------------|--|--|
| Participants | The participants are a bank, financial institution, RBI, and corporate | The participants are corporate banks, financial institute, retail investors, and investors |
| Safety | Safer | Riskier |
| Instruments | Instruments traded are Commercial paper, certificates of deposit, call money, treasury bill, etc., | Instruments traded are debenture, stocks, and bonds |
| Expected Return | Less return | High return |

Question 6

Explain the functions and objectives of the Securities and Exchange Board of India (SEBI).

Answer: Function of Securities and Exchange Board of India (SEBI) is divided into two parts

Regulatory Function.

- It helps in the registration of brokers and sub-broker and other associates of the market.
- It helps in the registration of collective schemes and mutual funds
- It regulates portfolio exchanges, share bankers, and merchant banker.
- Probation of unfair trade practices and fraud.
- Control insider trade and takeover bids.

Development Function.

- Educate investors.
- Training of intermediaries.
- Promotion of Code of Conduct and fair practices.
- Conduct research and public information, useful for market participants.

Objectives of the Securities and Exchange Board of India (SEBI).

- Regulate share exchange and securities used to promote orderly function.
- Protect interest and right of individual investors, investors, and guide and train them.

- To prevent fraud and accomplish a balance between self-regulation by the security industry and its statutory body.