

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.