

OPEN STUDENT FOUNDATION
Std-12 Business Administration
Day - 9

Chapters : 9

Date : 24/02/24

Section A

- Choose correct answer from the given options. [Each carries 1 Mark] [4]
1. In which year Depository Act came into existence? (March-2018, July-2018, May-2021, March-2023)
(A) 1996 (B) 1994 (C) 1995 (D) 1993
 2. Who issues Treasury Bills on behalf of the Indian Government ? (March-2019, July-2019, March-2022)
(A) State Bank of India (B) Reserve Bank of India (C) Central Bank of India (D) Financial Institutions
 3. Market for sale of new issued securities means.....
(A) Stock Exchange (B) Primary market (C) Secondary Market (D) Speculation market
 4. How many types of orders are there in purchase-sales of securities? (March-2020, Aug-2020)
(A) 2 (B) 4 (C) 3 (D) 5

Section B

- Write the answer of the following questions. [Each carries 3 Marks] [24]
5. What is Treasury Bill? (May-2021, July-2022)
 6. Give the meaning of capital market and clarify its characteristics.
 7. "Primary market means a market of new issued securities" - Explain and state the characteristics of primary market.
 8. State the functions of SEBI. (March-2023)
 9. Write a short note on National Securities Depository Limited (NSDL). (Aug-2020)
 10. State the characteristics of primary capital market. (March- 2020)
 11. State the characteristics of money market. (Any six) (July- 2019)
 12. Explain any six functions of Stock Exchange. (March-2022, July-22)

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Section A

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- 1. **In which year Depository Act came into existence? (March-2018, July-2018, May-2021, March-2023)**
(A) 1996 (B) 1994 (C) 1995 (D) 1993
⇒ Ans : (A)
- 2. **Who issues Treasury Bills on behalf of the Indian Government ? (March-2019, July-2019, March-2022)**
(A) State Bank of India (B) Reserve Bank of India (C) Central Bank of India (D) Financial Institutions
⇒ Ans : (B)
- 3. **Market for sale of new issued securities means.....**
(A) Stock Exchange (B) Primary market (C) Secondary Market (D) Speculation market
⇒ Ans : (B)
- 4. **How many types of orders are there in purchase-sales of securities? (March-2020, Aug-2020)**
(A) 2 (B) 4 (C) 3 (D) 5
⇒ Ans : (A)

Section B

- **Write the answer of the following questions. [Each carries 3 Marks] [24]**
- 5. **What is Treasury Bill? (May-2021, July-2022)**
⇒ Treasury bill is a short-term financial instrument issued by the RBI (Reserve Bank of India) on behalf of the Government of India.
⇒ Treasury bills are an important component of money markets all over the world. The government borrows money for a short period of time through treasury bills.
⇒ As the maturity date of treasury bill is 91 days or 182 days or 364 days, cash has the property of liquidity.
⇒ Treasury bills are zero coupon bonds, as no interest is paid on treasury bills. It is released at discount and redeemed at original price. For example, if a treasury bill of Rs. 25,000 is issued at Rs. 23,500 and the principal amount of Rs. 25,000 is paid to the investor at maturity, the difference between the two amounts is called the return to the investor.
⇒ Treasury Bills are also known as 'T-Bills'.
- 6. **Give the meaning of capital market and clarify its characteristics.**
⇒ **Meaning :** Capital market is an organized market which funds the society's savings in the form of capital to industrial enterprises. Long-term securities such as shares or debentures are traded in the capital market. The capital market helps in the economic development of the country by keeping the savings of the society dynamic.
⇒ **Features of capital market :**
 - (1) Capital market is the long term capital funding for the market.
 - (2) Capital market instruments include government securities, debt instruments, securities of industrial enterprises like shares, debentures.
 - (3) Capital market funds are invested in long-term securities.

- (4) SEBI controls the capital market in India.
- (5) Ownership of securities like shares, debentures is exchanged in the capital market.
- (6) Capital market provides liquidity to financial assets (securities).
- (7) Capital market is divided into two parts :
 - (1) Primary market
 - (2) Secondary market.

7. "Primary market means a market of new issued securities" - Explain and state the characteristics of primary market.

- ⇒ Investors can only buy new securities in the primary capital market. This market provides a mechanism for selling new securities to raise capital funds. Thus, this market is a market for newly issued securities. Hence, it can be said that, 'Primary market means a market of new issued securities (New Issue Market),
- ⇒ Characteristics of primary market :
 - (1) It is the market for issuing new securities.
 - (2) New securities are sold and investors can buy.
 - (3) There are many intermediaries in the primary market. Like book running lead Manager, Registrar of issue, Share Broker etc.
 - (4) Inflow of fresh capital is placed in the primary capital market through prospectus.

8. State the functions of SEBI. (March-2023)

- ⇒ **SEBI :**
- ⇒ SEBI came into legal existence on January 30, 1992 under the Securities and Exchange Board of India Act, 1992 to regulate Stock Exchanges in India. The head office of SEBI is in Mumbai and regional offices are in Kolkata, Delhi and Chennai. SEBI (Securities and Exchange Board of India) is a statutory body that regulates the stock exchanges in India.
- ⇒ **Objectives of SEBI :**
 - (1) To protect the interests of investors in securities.
 - (2) To promote the development of securities market.
 - (3) To regulate the securities market.
- ⇒ **Functions of SEBI : (March-2023)**
 - (1) Regulation of business in Stock Exchange :
 - ⇒ SEBI regulates the business and operation of Stock Exchanges. SEBI monitors compliance of prescribed rules and guidelines by stock brokers, sub-brokers, merchant bankers.
 - (2) Protection of interests of investors :
 - ⇒ SEBI's main function is to protect the interests of investors investing in securities. Hence, SEBI enforces intermediaries to obey the rules and regulations laid down by SEBI.
 - (3) Registration and regulation of intermediaries :
 - ⇒ SEBI regulates and registers intermediaries working in the Stock Exchange e.g. Stock brokers, sub-brokers, merchant bankers, registrars of securities etc. SEBI also conducts training for intermediaries.
 - (4) Registration and Regulation of Mutual Funds :
 - ⇒ SEBI regulates the registration of mutual funds and their functioning.
 - ⇒ For this, SEBI has laid down statutory norms to be followed by mutual funds.
 - (5) To Stop Fraud Trade :
 - ⇒ SEBI takes necessary steps to stop fraudulent trading in the Stock Exchange.
 - (6) Cancellation of registration of brokers :
 - ⇒ Stock brokers who do not follow the rules and guidelines laid down by SEBI and fail to provide required

information to SEBI, SEBI cancels the registration of brokers .

(7) To regulate merger and take-over of companies :

⇒ SEBI regulates mergers and acquisitions of companies to protect the interest of investors. SEBI has issued guidelines to prevent mergers and acquisitions of companies at the risk of small investors.

(8) Guidelines in respect of Public Offerings:

⇒ SEBI issues separate guidelines for both new companies undertaking initial public offering or existing companies coming to the market for public offering.

(9) Self-Regulation :

⇒ SEBI keep trying to establish self-regulation by Stock Exchange intermediaries. Intermediaries are encouraged to set up their own business associations.

(10) Maintenance of Stock Exchanges as an efficient markets:

⇒ SEBI maintains the stability and efficiency of the Stock Exchange through various regulations, controls and various guidelines.

(11) Inspection of Books :

⇒ SEBI inspects the books of securities issuing company, depository participant and beneficial owner whenever required.

(12) Monitoring and Investigation of Stock Exchange :

⇒ SEBI can anytime inspect and investigate matters like rules imposed on the Stock Exchange are followed or not, the system and operation of the Stock Exchange is in accordance with the SEBI Act, etc. SEBI conducts inquiries, investigations and audits of accounts of Stock Exchange intermediaries as required.

(13) Guidelines :

⇒ SEBI issues guidelines from time to time for Share broker, sub-broker, merchant banker, trustees of debentures, buy back securities by company etc.

(14) Obtaining annual and periodical reports :

⇒ To obtain information about the performance and activities of the Stock Exchanges, reports are obtained from the Stock Exchanges in the form of various statements.

(15) Research work :

⇒ SEBI undertakes research work with a view to carry out all the above functions effectively.

9. Write a short note on National Securities Depository Limited (NSDL). (Aug-2020)

⇒ **National Securities Depository Limited (NSDL) :**

⇒ NSDL has been established in 1996 with the collaboration of National Stock Exchange and some financial institutions. Since NSDL is incorporated as a public company under the Companies Act, it is managed by a Board of Directors and its functions are performed by a Depository Participant appointed by it. The investor does not have to pay any expenses directly to NSDL in terms of fees. Depository Participant collect fees from customer or investor.

⇒ This organization provides online services for de materialisation, re materialisation, electronic settlement of trades, crediting right shares and bonus shares to customer accounts, suspension of customer accounts etc.

10. State the characteristics of primary capital market. (March- 2020)

The characteristics of primary capital market are :

⇒ Primary Capital Market is a market for issuing new securities.

⇒ New securities are sold and investors can buy them. There are many intermediaries in the primary market. Like, book running lead manager, registrar of issue, share broker etc.

⇒ The new capital is placed in the primary capital market through prospectus.

11. State the characteristics of money market. (Any six) (July- 2019)

- ➡ According to the general view, 'money market' is a market for short-term instruments (assets). Money market is the market of financial assets or instruments that have close substitutes of money.'
- ➡ Broadly speaking, 'the market for transactions in short-term financial assets that have close substitutes of money with high liquidity is the financial market.'
- ➡ A money market as defined above is a market for borrowing money and lending money for a short period of time. This market is the market for securities with maturity of one year or less. A money market is not a physical place like a Stock Exchange, but a collection of different institutions that trade money.
- ➡ There are two parties in the money market. One is money lenders and the other is money borrowers. Money lenders mainly include Reserve Banks, Commercial Banks, Co-operative Banks, Shroff etc. While the borrowers are farmers, traders, state governments, central government etc.

Features :

- (1) Money market is divided into two sections.
 - (A) Organized money market
 - (B) Disorganize money market.
- (2) Money Market is the market for short term assets or instruments which have a maturity of one year or less.
- (3) Creditability of participants is important in the money market.
- (4) A money market is not a specific physical place, but a collective structure of various institutions.
E.g. Reserve Bank of India, Commercial Banks, Govt. Banks, Mutual Fund Institutions, Insurance Companies etc.
- (5) Financial instruments are quickly converted into cash in the financial market. E.g, Treasury bill, call money
- (6) Most of the money market instruments are debt instruments.
- (7) Since financial instruments are safer as compared to other financial instruments, the element of risk is less.
- (8) The success of the money market depends on the functioning of the banking system and financial institutions.
- (9) With the economic and technological development, sub-branches of money market have also developed. Like, call money market, bond market, treasury bill market.

12. Explain any six functions of Stock Exchange. (March-2022, July-22)

- ➡ A stock exchange is a system that enables stock brokers and investors to buy and sell shares, debentures and other securities. Its functions are as follows :
- (1) **Liquidity :**
 - ⇒ Investors can buy and sell securities whenever they want in the Stock Exchange. This is possible as the Stock Exchange provides a ready market. Thus, providing liquidity to securities is an important function of the Stock Exchange.
 - (2) **Valuation of Securities :**
 - ⇒ Valuation of securities becomes possible based on its demand and supply. Valuation of securities can be useful to investors, government and creditors.
 - ⇒ Other factors such as dividend declared by the company are also important in valuing the securities.
 - (3) **Conversion of saving into Capital :**
 - ⇒ Individuals of the society who have financial savings and want to invest in securities can easily buy and sell securities. Hence their savings are converted into capital.
 - (4) **Intermediaries in Capital Creation :**
 - ⇒ A Stock Exchange does not itself create capital, but provides a platform for buying and selling of securities. Thus, the Stock Exchange plays an intermediary role in capital creation.
 - (5) **Safety in the Deal :**

⇒ As the brokers working in the Stock Exchange under the control of SEBI, the transactions in the Stock Exchange are done according to the rules and regulations. So, the Stock Exchange offers investors safety in trades.

(6) Capital Market Development :

⇒ The Stock Exchange provides long-term capital to industries as society's savings can be diverted to industrial flows. Hence the economic development of the country becomes possible with the development of the capital market.

(7) Facilities for carrying out activities :

⇒ The Stock Exchange provides necessary facilities to its members to carry out their activities. So the members of the Stock Exchange can protect the interest of the investors.

(8) Facility required for speculation :

⇒ Healthy speculation keeps the Stock Exchange alive. Stock Exchange provides necessary facilities for speculative transactions within the framework of law.

(9) Provider of information :

⇒ Stock Exchanges provide information useful to various parties, e.g., changes in prices of securities, flow of buying and selling of securities, etc. This information is useful to investors, companies, government, SEBI. All these information are useful to the government in formulating economic policy, monetary policy. Also indicates the economic situation and development of the company and the nation. It is a mirror showing the economic situation of the country. Hence, the Stock Exchange is called the indicator of the economic condition of the country.

(10) Listing of securities :

⇒ Only listed securities are traded in the stock exchange. So if a company wants its securities to be traded in the Stock Exchange, the company has to be listed its securities. The investors have more confidence in listed securities.

(11) Guidance to investors :

⇒ The Stock Exchange collects and publishes the information of listed companies. Based on this information, investors can decide which company securities to invest in and which company securities to withdraw from.