

# FINANCIAL MARKET

## STUDY NOTES

### ● Concept of Financial Market

A business is a part of an economic system that consists of two main sectors – households which save funds and business firms which invest these funds. A financial market helps to link the savers and the investors by mobilizing funds between them.

### ● A financial market is a market for:

- Creation and exchange of financial assets such as the initial issue of shares and debentures by a firm or
- The purchase and sale of existing financial assets like equity shares, debentures and bonds.

### ● Functions of Financial Market: Financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions.

- Mobilisation of Savings and Channeling them into the most Productive Uses
- Facilitate Price Discovery
- Provide Liquidity to Financial Assets
- Reduce the Cost of Transactions

### ● Types of Financial Markets

- On the basis of the maturity of financial instruments traded the financial markets are classified into money market and capital market.

### ● Money Market

- The money market is a market for short term funds which deals in monetary assets whose period of maturity is upto one year.

### ● Money Market Instruments

#### ➤ Treasury bill: A Treasury bill is basically:

- (a) an instrument of short-term borrowing by the Reserve Bank Of India on behalf of Government of India maturing in less than one year to meet its short-term requirement of funds.
- (b) They are also known as Zero Coupon Bonds issued with minimum amount of ₹25,000.
- (c) They are generally issued for a period of 14 to 364 days.

#### ➤ Commercial Paper: Commercial paper is:

- (a) A short-term unsecured promissory note which is freely transferable.
- (b) It is issued by large and creditworthy companies to raise short-term funds at lower rates of interest than market rates.
- (c) It usually has a maturity period of 15 days to one year.
- (d) It is sold at a discount and redeemed at par with minimum amount ₹5,00,000.
- (e) The original purpose of commercial paper was to provide short-terms funds for seasonal and working capital needs.

#### ➤ Call Money: Call money is:

- (a) Short term finance repayable on demand, used for inter-bank transactions.

(b) There is an inverse relationship between call rates and other short-term money market instruments such as certificates of deposit and commercial paper. The time period ranges -one day to fifteen days,

➤ **Certificate of Deposit:**

(a) Certificates of deposit (CD) are unsecured, negotiable, short-term instruments in bearer form, issued by commercial banks and development financial institutions.

(b) The time period ranges from 91 days to one year.

➤ **Commercial Bill:**

(a) A commercial bill is a bill of exchange used to finance the working capital requirements of business firms.

(b) It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms.

(c) When a trade bill is accepted by a commercial bank it is known as a commercial bill.

● **Capital Market**

➤ The term capital market refers to facilities and institutional arrangements through which long-term funds; both debt and equity are raised and invested.

● **Features of Capital Market**

➤ **Duration:** It deals with medium and long-term securities.

➤ **Participants:** Financial Institutions, banks, Companies, Stock exchanges, Government.

➤ **Investment Outlay:** High range ₹10 to maximum any amount.

➤ **Liquidity:** Liquid as marketable in stock exchanges but less as compared to money market.

➤ **Safety:** Riskier as chances of frauds are higher.

➤ **Expected Returns:** High yield as held for longer duration.

● **Types of Capital Market**

● **Primary Market**

➤ The primary market is also known as the new issues market. It deals with new securities being issued for the first time. The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time.

● **Methods of Floatation in Primary Market**

➤ There are various methods of floating new issues in the primary market:

(a) Offer through Prospectus

(b) Offer for Sale:

(c) Private Placement:

(d) Rights Issue:

(e) e-IPOs:

● **Secondary Market**

➤ The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities.

● **Stock Exchange**

➤ A stock exchange is an institution which provides a platform for buying and selling of existing securities. As a market, the stock exchange facilitates the exchange of a security (share, debenture etc.) into money and vice versa.

● **Functions of a Stock Exchange**

➤ Providing Liquidity and Marketability to Existing Securities.

➤ Pricing of Securities (by forces of demand and supply)

➤ Safety of Transaction

- Contributes to Economic Growth
- Providing Scope for Speculation
- Spreading of Equity Cult
- Economic Barometer

● **Trading Procedure on A Stock Exchange**

- **Selection of broker:** The first step is to select the broker who will buy and sell the securities.
- **Opening Demat Account:** The next step is to open demat account where the securities are held electronically.
- **Placing the order:** The investor places the order.
- **Executing the order:** According to clients instruction, the broker executes the order and informs his clients.
- **Contract Note:** The broker then prepares the contract note.
- **Settlement:** The transactions on stock exchange are carried out through cash or carry over basis.

(The carry over basis is known as Badla and the buyer has to pay the badla charges.).

● **Depository Services and Demat Account**

In the depository system, the physical securities are converted into electronic form through the process of dematerialization.

- In India, there are two depositories:
  - (a) National Securities Depository Ltd. (NSDL)
  - (b) Central Depository Services Ltd. (CDSL)
- The constituents of depository system are:
  - (a) Depository
  - (b) Depository Participants
  - (c) Issuing Company
  - (d) Investors

● **Depository:** It is an institution which holds securities of investors in electronic form at the request of investors through depository participant.

● **Depository Participant:** He is the agent of the depository.

**Benefits of Depository services**

- The risk of tearing, loss of share certificate is eliminated
- The investor need not fill up transfer deeds and pay transfer stamp duty
- Reduction in paper work
- No risk of frauds
- Transparency

● **Demat Account**

- Dematerialization refers to conversion of a security from its physical security to electronic form.

● **Securities and Exchange Board of India (SEBI)**

- The Securities and Exchange Board of India was established by the Government of India on 12 April 1988.
- The SEBI was given statutory(independent) status on 30 January 1992 through an ordinance.

● **Objectives of SEBI**

- The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. This may be elaborated as follows:
  - (a) To regulate stock exchanges and the securities industry to promote their orderly functioning.
  - (b) To protect the rights and interests of investors.
  - (c) To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
  - (d) To regulate and develop a code of conduct and fair practices .

● **Functions of SEBI**

- Regulatory Functions
- Protective Functions
- Development Functions

## QUESTION BANK

### MULTIPLE CHOICE QUESTIONS

- Treasury bill also known as \_\_\_\_\_
  - One coupon bonds
  - Zero coupon bonds
  - Two coupon bonds
  - None of the above
- It is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions.
  - Call money
  - Zero coupon bonds
  - Commercial paper
  - None of the above
- It refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general.
  - Money market
  - Capital market
  - Financial market
  - All of the above
- It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms.
  - Bills of exchange
  - Commercial papers
  - Commercial bill
  - None of the above
- Ram started a new company in Calcutta. He requires a huge amount to meet its expenses. His legal advisor advised him to raise capital through different sources. A company can raise capital through the primary market in the form of
  - Equity shares
  - Preference shares
  - Debentures
  - All of the above
- It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms. When goods are sold on credit, the buyer becomes liable to make payment on a specific date in future. The seller could wait till the specified date or make use of it.
  - Paper bill
  - GST bill
  - Money bill
  - Commercial bill
- It makes a direct appeal to investors to raise capital, through an advertisement in newspapers and magazines. The issues may be underwritten and also are required to be listed on at least one stock exchange.
  - An advertisement
  - A memo
  - A prospectus
  - Offer for sale
- full form of IPO is:
  - Indian Postal Office
  - Initial Public Offer
  - Indian Population Organisation
  - All of the above
- It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities.
  - Secondary market
  - Stock market
  - Stock exchange
  - All of the above
- This is an institution which provides a platform for buying and selling of existing securities. As a market, it facilitates the exchange of a security (share, debenture etc.) into money and vice versa. It helps companies raise finance, provide liquidity and safety of investment to the investors and enhance the credit worthiness of individual companies.
  - Bills of exchange
  - Stock exchange
  - Finance exchange
  - All of the above
- It aims to stimulate competition and encourage innovation. This environment includes rules and regulations, institutions and their interrelationships, instruments, practices, infrastructure and policy framework.
  - Bank
  - SEBI
  - Both (a) and (b)
  - None of the above

12. Financial Market is a market for creation and exchange of financial \_\_\_\_\_. It helps in mobilisation and channelising the savings into most productive uses. Financial markets also helps in price discovery and provide liquidity to financial assets.  
 (a) Liabilities (b) Assets (c) Both (a) and (b) (d) None of the above
13. Money Market is a market for short-term funds. It deals in monetary assets whose period of maturity is less than:  
 (a) one year (b) One Month (c) Both (a) and (b) (d) None of the above
14. Securities and Exchange Board of India was established in \_\_\_\_\_ and was given statutory status through an Act in \_\_\_\_\_. The SEBI was set-up to protect the above interests of investors, development and regulation of the securities market.  
 (a) 1988,1992 (b) 1992,1988 (c) Both (a) and (b) (d) None of the above
15. "SEBI conducts research and publishes information useful to various capital market participants." the function of SEBI which is highlighted by this statement:  
 (a) Regulatory function (b) Development function  
 (c) Both (a) and (b) (d) None of above
16. The essential function of this market is to facilitate the transfer of funds from savers to investors through the issue of securities for the first time.  
 (a) Secondary market (b) Primary market  
 (c) Both (a) and (b) (d) None of the above
17. First time sale of securities by a company is called as \_\_\_\_\_. It can be made by using any of the following methods: I. public issue through prospectus, II. Offer for sale, III. private placement  
 (a) Initial public offer (b) Public offer  
 (c) Normal offer (d) Money offer
18. Transactions on any stock exchange can be carried out either on cash basis or carry over basis. The carryover basis is known as \_\_\_\_\_. This facility allows postponement of delivery or payment of a transaction from one settlement period to another. This unique feature of the stock market can be seen in the Indian stock market particularly in Bombay stock exchange.  
 (a) Badla (b) Charges (c) Both (a) and (b) (d) None of the above
19. It is valuable to shareholders as it is generally at a price that is lower than the market price of the share. Also, existing shareholders are sure to get the shares in the decided ratio. It helps the existing shareholders in retaining their control over the company.  
 (a) Right issue (b) Charges (c) Both (a) and (b) (d) None of the above
20. The types of financial markets based on the maturity period of securities traded are \_\_\_\_\_ and \_\_\_\_\_:  
 (a) Primary market, secondary market (b) money market, capital market  
 (c) Charges (d) Both (a) and (b)
21. The stock exchange provides \_\_\_\_\_ to securities by facilitating their trading, buying and selling.  
 (a) Fixation (b) Liquidity (c) Both (a) and (b) (d) None of the above
22. Selecting a broker  
 ↓  
 Opening Demat account  
 ↓  
 Placing order  
 ↓  
 Execution of order  
 ↓  
 Settlement
- The above given steps are the steps in \_\_\_\_\_ of the stock exchange.  
 (a) Trading procedure (b) Selling securities  
 (c) Both (a) and (b) (d) None of the above

23. "Undertaking measures for protecting the interests of investors. This is one of the \_\_\_\_\_ functions of securities of securities and exchange board of India.  
 (a) Protective (b) Development (c) Regulatory (d) None of the above
24. \_\_\_\_\_ regulates the capital market.  
 (a) National Stock Exchange (b) Securities Exchange Board of india  
 (c) Both (a) and (b) (d) None of above
25. "Registration of brokers and sub brokers and other players of the capital market." is the \_\_\_\_\_ function of the securities exchange board of India.  
 (a) development (b) regulatory (c) Both (a) and (b) (d) None of the above
26. From the set of facts given in column I and corresponding relevant fact given in column II, choose the correct pair of statement: Identify which of following option is showing correct pairing:

Column I		Column II	
I.	Secondary market	A.	May be divided into primary market and secondary market.
II.	Capital market	B.	A place where existing securities are bought and sold.
III.	Money market	C.	Provide a platform for buying and selling of existing securities.
IV.	Stock exchange	D.	It deals in monetary assets whose period of maturity is less than one year.

- (a) I - A, II - B, III - C, IV - D (b) I - D, II - C, III - A, IV - B  
 (c) I - B, II - A, III - D, IV - C (d) I - C, II - D, III - A, IV - B

27. From the set of facts given in column I and corresponding relevant fact given in column II, choose the correct pair of statement:

Column I		Column II	
I.	Primary market	A.	It is done through brokers who are members of the stock exchange. Trading has shifted from the stock market floor to the brokers office.
II.	Screen-based trading	B.	It gives investors the chance to disinvest and re-invest.
III.	Stock exchange	C.	They are able to see the full market during real time.
IV.	Trading in securities	D.	Prices are determined and decided by the management of the company.

- (a) I - A, II - C, III - B, IV - D (b) I - B, II - C, III - D, IV - A  
 (c) I - D, II - C, III - B, IV - A (d) I - C, II - A, III - B, IV - D

28. From the set of facts given in column I and corresponding relevant fact given in column II, choose the correct pair of statement:

Column I		Column II	
I.	Commercial Bill	A.	Are issued in the form of a promissory note
II.	Certificate of Deposit	B.	Maturity period of one day to fifteen days
III.	Call Money	C.	Can be issued to individuals, corporations and companies during period of tight liquidity when the deposit growth of banks is slow but the demand for credit is high.
IV.	Treasury Bill	D.	self-liquidating instrument

- (a) I - A, II - C, III - B, IV - D (b) I - D, II - B, III - A, IV - C  
 (c) I - D, II - C, III - B, IV - A (d) I - A, II - C, III - D, IV - B

29. From the set of facts given in column I and corresponding relevant fact given in column II, choose the correct pair of statement:

Column I		Column II	
I.	Capital Market	A.	The interest rate paid on call money loans
II.	Call rate	B.	Helps to link the savers and the investors by mobilizing funds between households and business firms
III.	Reserve bank of India	C.	(Costs associated with floating of an issue are brokerage, commission, printing of applications and advertising, etc.
IV.	Floataion costs	D.	Changes the cash reserve ratio from time to time which in turn affects the amount of funds available to be given as loans by commercial banks

- (a) I – A, II – C, III – B, IV – D  
 (b) I – D, II – B, III – C, IV – A  
 (c) I – B, II – A, III – D, IV – C  
 (d) I – C, II – D, III – B, IV – A

30. From the set of facts given in column I and corresponding relevant fact given in column II, choose the correct pair of statement:

Column I		Column II	
I.	Allocative function	A.	Used to finance the working capital requirements of business firms.
II.	Commercial bill	B.	Inverse relationship
III.	Certificates of deposit and commercial paper	C.	Makes other sources of finance such as commercial paper and certificates of deposit cheaper in comparison for banks to raise funds from these sources.
IV.	A rise in call money rates	D.	Facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested.

- (a) I – A, II – B, III – C, IV – D  
 (b) I – D, II – C, III – B, IV – A  
 (c) I – D, II – A, III – B, IV – C  
 (d) I – A, II – C, III – B, IV – D

31. \_\_\_\_\_ is a source of financing to meet very short-term fund requirements of commercial banks with a provision of renewal.

- (a) Treasury Bill  
 (b) Commercial Paper  
 (c) Certificate of Deposit  
 (d) Call Money

32. An investor wanted to invest ₹20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.

Identify the reason why the investor could not invest in the Treasury Bill.

- (a) Money is not in Dollars  
 (b) The treasury bills are available at the minimum amount of ₹25000.  
 (c) There was a high risk in it  
 (d) None of the above

33. Santa ltd. a reputed automobile manufacturer needs Rupees five crores as additional capital to expand its business. Ramher Julani, the CEO of the company, wanted to raise funds through equity. On the other hand the finance manager, Simran Wadhwa said that the public issue may be expensive on account of various mandatory and non-mandatory expenses. Therefore, it was decided to allow the securities to institutional investors. Identify which of the following method through which the company decided to raise additional capital.

- (a) Public issue  
 (b) E-IPOs  
 (c) Private placement  
 (d) None of the above

34. On this day, the exchange will deliver the share or make payment to the other broker,  
 (a) Pay-in day (b) Pay-out day (c) Transaction day (d) None of the above
35. The mandatory detail that an investor has to provide to the broker at the time of opening a demat account is  
 (a) Date of birth and address (b) PAN number  
 (c) Residential status (Indian/NRI) (d) Bank account details.
36. It is a number assigned to each transaction by the stock exchange and is printed on the contract note.  
 (a) PAN number (b) Unique Order Code (c) Contract Note (d) None of the above
37. It acts like a bank and keeps securities in electronic form on behalf of the investor,  
 (a) Depository Participant (b) Depository  
 (c) Stock exchange (d) None of the above
38. Stock Exchange works as a mechanism for valuation of securities through the forces of demand and supply. Identify the related function of performed by the stock exchanges.  
 (a) Providing liquidity and marketability to existing securities.  
 (b) Safety of transaction  
 (c) Pricing of security  
 (d) Spreading of equity cult
39. Rocky Enterprises Limited has sold an entire lot of 5,00,000 equity shares @ ₹9 each to Prosperous Bank Private Limited. The bank intum will offer the shares to general public for subscription @ ₹11 per share. Identify the method of floatation being described in the given lines.  
 (a) Private placement (b) Offer through prospectus  
 (c) Offer for sale (d) Rights issue
40. A company can raise capital through the primary market in the form of  
 (a) Equity shares (b) Preference shares (c) Debentures (d) All of the above
41. It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms.  
 (a) Commercial bill (b) Commercial papers  
 (c) Call money (d) None of the above
42. A Treasury Bill is basically:  
 (a) An instrument to borrow short-term funds (b) An instrument to borrow long-term funds  
 (c) An instrument of capital market (d) None of the above
43. What is meant by Demat Account?  
 (a) Development Market Account (b) Depository Participant Account  
 (c) Dematerialisation of Securities (d) Demand Depository Account
44. Securities Exchange Board of India (SEBI) was established in. \_\_\_\_\_  
 (a) 1992 (b) 1956 (c) 2001 (d) 1984
45. At present only two depositories are registered with SEBI \_\_\_\_  
 (a) NSDL and HDFC (b) NSDL and CDSL  
 (c) NSDL and ABSL (d) NEFT and TDS
46. What type of instruments are traded in a Money Market?  
 (a) Treasury bills (b) Commercial bills (c) Call money (d) All of the above
47. It is a self-liquidating, short-term, negotiable instrument used to finance business credit sales:  
 (a) Commercial papers (b) Commercial bill  
 (c) Call money (d) None of above
48. When opening a demat account, an investor must submit which of the following document to the broker:  
 (a) Date of birth and address (b) PAN number  
 (c) Residential status (d) Bank account details



49. A firm can raise capital through the primary market in the form of:  
 (a) Equity shares      (b) Preference shares      (c) Debentures      (d) All of the above
50. SEBI is regulator of:  
 (a) Capital market      (b) Money market  
 (c) Commodity market      (d) Overseas market

### INPUT-TEXT BASED MCQs

**Read the following text and answer the following questions (51 to 54) on the basis of the same:**

'Unicon Securities Pvt. Ltd' was established to deal in securities. It was registered as a stock broker with National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) to trade in securities listed at these exchanges. It is also a depository participant with CDSL and NSDL. In the first three years, it developed its business successfully. After that the composition of the Board of Directors changed. Some customers complained to the customer care centre of the company that shares purchased by them and for which the payment has been duly made, were not transferred to their D'mat Accounts by 'Unicon securities Pvt. Ltd.' The executive of the customer care centre promised the aggrieved customers that their shares will be transferred to their respective D'mat Accounts very soon. But the company delayed the matter and didn't transfer the shares of the customers to their D'mat Accounts. This eroded investors' confidence and multiplied their grievances.

51. Identify the step of trading procedure in a stock exchange which has not been followed by 'Unicon Securities Pvt. Ltd.'
- (a) Delivery of shares to investors by the broker  
 (b) Selecting a broker  
 (c) Opening Demat account  
 (d) Placing order
52. Name the Apex statutory body of capital market to whom customers can complain to redress their grievances.  
 (a) NSE      (b) SEBI      (c) FSSAI      (d) RBI
53. How unicon securities contributed to economic growth?  
 (a) By selling and buying securities      (b) By trading securities  
 (c) By promoting savings and investment      (d) All of the above
54. What is the full form of Demat?  
 (a) Dematerialisation      (b) D material  
 (c) Dematerial situation      (d) None of the above

**Read the following text and answer the following questions (55 to 58) on the basis of the same:**

Kynaa, a beauty products e-commerce company, is diversifying into men's grooming. It is also tapping the demand for beauty products in the fashion industry and amid professionals such as make-up artists. As it diversifies its online presence, Kynaa is also expanding its physical presence. They have 41 outlets across 18 cities presently and plan to expand to 180 outlets. Each store requires a capital expenditure of 60-80 lakh rupees. The company has decided to raise funds by issuing equity shares but not directly to the public, rather by offering them for sale through brokers.

55. Method of floatation followed by the company  
 (a) E-IPOs      (b) Offer through prospectus  
 (c) Both (a) and (b)      (d) None of the above
56. Methods of floatation that can be used by the company for raising funds from the public  
 (a) Sale of shares      (b) Offer for sale  
 (c) Profit earning      (d) All of the above
57. Which form of market is this?  
 (a) Primary market      (b) Capital market  
 (c) Primary market      (d) None of the above

58. What is the correct definition of primary market?

- (a) A primary market is a source of new securities. Often on an exchange, it's where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities.
- (b) A primary market is a source of old securities. Often on an exchange, it's where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities.
- (c) A primary market is not a source of new securities. Often on an exchange, it's where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities.
- (d) All of the above

**Read the following text and answer the following questions (59 to 62) on the basis of the same:**

Mr. Mahajan is the CEO of a school bag manufacturing company. Recently the company issued equity shares to meet the increasing costs for upgrading technology. However, to meet the floatation costs incurred to issue equity the company decided to do Bridge Financing. So it decided to issue a type of money market instrument. The requirement of the company was met intelligently by a good decision of its wise CEO. Two months later the company decided to issue a new equity again for the first time in the primary market. According to the method of floatation it involved, it decided to go for the method adopted mostly by the public companies and made an appeal to the masses by directly approaching them. Again the success comes the way of the company and its objectives are achieved. However when the same type of attempt was made by the company again after another two months the company had a lot of problems. The problem was about deciding one key aspect related to the new issued security. The company would not have cared much about this key aspect if the same process would have taken place in the secondary market.

59. Type of money market instrument was issued by the company in the earlier part is:

- (a) Call money
- (b) Commercial bill
- (c) Commercial Paper
- (d) All of the above

60. Which method of floatation was adopted by the company two months later?

- (a) Offer through Prospectus
- (b) Offer for sale
- (c) Private placement
- (d) A right issue

61. Which of the following key aspect the company would not have cared about in the secondary market?

- (a) Price of securities fixed by manager
- (b) About the listing of securities
- (c) About the pricing of the securities as the prices are decided by the demand and supply of the securities.
- (d) None of the above

62. Which of the following concept of financial market is highlighted in the above given case:

- (a) 'Capital Market'
- (b) Money market
- (c) Short term market
- (d) All of the above

**Read the following text and answer the following questions (63 to 66) on the basis of the same:**

A bank named 'paise jodo' allows all families to deposit their money time and again in it. It gives a definite return to this family which is in the form of interest. Give assurance of safety also. Ms. Yashwini moved out of the house to deposit money in 'Paise Jodo' bank but her brother advised him to invest money in the financial market instead of depositing in the bank. Nearby there is a stock exchange, on advice of her brother, Ms. Yashwini, who is the head of the family, goes there and buys securities. She says that in this way more return is earned by her on her saved money though the risk is also there.

63. The process in above case performed by the bank and the stock exchange is:

- (a) Savings
- (b) Borrowings
- (c) Financial Intermediation
- (d) Lending money

64. What are the roles of the bank and the stock exchange with respect to each other?

- (a) Platform to save money
- (b) Competing intermediaries in the financial system
- (c) Intermediaries of stock exchange
- (d) All of the above

65. 'The bank should provide a higher rate of return to the household savings than what it would get by lying passive in the household itself. Since the money will only decrease in value there will be no return.' This is...
- (a) This is a condition for the bank to perform its role in this process.
  - (b) This is importance of banking system
  - (c) This is limitation of banking system
  - (d) None of the above
66. 'Will help the household invest money in a company's security. The chances of growth of money could be highest here as the money is generally invested in companies which show the chances of the best possible growth.' This shows the
- (a) Limitation of stock exchange
  - (b) Condition for the stock market to perform its role in this process
  - (c) Both (a) and (b)
  - (d) None of the above

**Read the following text and answer the following questions (67 to 70) on the basis of the same:**

Rahul selects a person who is authenticated to buy or sell securities on his behalf. He is registered with SEBI. Then through this person Rahul opens an account with a bank. Then he takes the next step. He gives this person an order in which he specifies the number and types of securities to be bought or sold. The process moves forward. After getting the instructions from Rahul the selected person buys and issues d' paper. The paper contains the name and price of securities, brokerage charges and the name of the parties involved. Then comes the concluding stage of the process. Here, the trading of securities is done by the selected persons on behalf of Rahul.

67. The process highlighted in the above case is:
- (a) Trading procedure on a Stock Exchange
  - (b) Sale of securities
  - (c) Purchase of securities
  - (d) None of above
68. Type of account is being indicated here is:
- (a) Saving account
  - (b) Current account
  - (c) Demat Account
  - (d) Nank account
69. The role of bank here in above given case is:
- (a) Investors
  - (b) Depository
  - (c) Depository account
  - (d) Depository Participant
70. What is the role of the person he has chosen?
- (a) Agent
  - (b) Broker
  - (c) Middleman
  - (d) Investor

## ANSWERS

### Multiple Choice Questions

- |         |         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1. (b)  | 2. (a)  | 3. (b)  | 4. (c)  | 5. (d)  | 6. (d)  | 7. (c)  | 8. (c)  | 9. (d)  | 10. (b) |
| 11. (b) | 12. (b) | 13. (a) | 14. (a) | 15. (b) | 16. (b) | 17. (a) | 18. (a) | 19. (a) | 20. (b) |
| 21. (b) | 22. (a) | 23. (a) | 24. (b) | 25. (b) | 26. (c) | 27. (c) | 28. (c) | 29. (c) | 30. (c) |
| 31. (d) | 32. (b) | 32. (c) | 34. (b) | 35. (b) | 36. (b) | 37. (b) | 38. (c) | 39. (c) | 40. (d) |
| 41. (a) | 42. (a) | 43. (c) | 44. (a) | 45. (b) | 46. (d) | 47. (b) | 48. (b) | 49. (d) | 50. (a) |

### Input-Text Based MCQs

- |         |         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 51. (a) | 52. (b) | 53. (d) | 54. (a) | 55. (c) | 56. (b) | 57. (c) | 58. (a) | 59. (c) | 60. (a) |
| 61. (c) | 62. (a) | 63. (c) | 64. (a) | 65. (a) | 66. (b) | 67. (a) | 68. (c) | 69. (d) | 70. (b) |

