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CLASS: XII BUSINESS STUDIES FINANCIAL MARKET

Q1. What is meant by financial Market?

Q2. What is financial intermediation?

Q3. Name the two major alternative mechanisms through which allocation of funds can be done.

Q4. Give the meaning of allocation function of a financial market. State the consequences of this function.

Q5. Explain the following money market instruments:

A) Treasury bills b) Certificate of deposit C) Commercial paper

Q6. Mission coach limited is a large and creditworthy company manufacturing coaches for Indian railways. It now wants to export these coaches to other countries and decides to invest in hi-tech machines. Since the investment is large it requires long term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge cost. To meet the expenses of floatation cost the company decides to tap the capital market.

- Name and explain the money market instrument the company can use for the above purpose.
- What is the duration for which the company can get funds through this instrument.
- State any other purpose for which this instrument can be used

Q7. Sarah Ltd is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too it had been able to generate enough profits. There is availability of enough cash in the company and good prospects of growth in future. It is a well managed company and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments. It has taken a loan of Rs 40 lakhs from IDBI and is bound by restrictions on the payment of dividend according to the loan agreement. The above decision of the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company. Quoting the lines from the above discussion identify and explain any four such factors.

Q8. Shalini, after acquiring her degree in Hotel Management and Business administration took over her family food processing company of manufacturing pickles, jams and squashes. The business was established by her great grandmother and was doing reasonably well. However the fixed operating costs of the business were high and the cash flow position was weak. She wanted to undertake modernization of the existing business by introducing the latest manufacturing processes and she also diversified into the market of chocolates and candies. She was very enthusiastic and approached a finance consultant who told her that approximately Rs 50 lakh would be required for undertaking the modernization and expansion programme. He also informed her that the stock market was going through a bullish phase.

- Keeping the above considerations in mind name the source of finance which Shalini should not choose for financing her modernization and expansion plans of her food processing business. Also give one reason in support of your answer.

- b) Explain any two other factors apart from those stated in the above situation which Shalini should keep in mind while taking this decision.

9. Investors in general consider increase in dividend as good news and stock market reacts positively to it. On the other hand, the Companies Act, places certain restrictions on payouts as dividend. To avoid these types of restrictions, the management of Crompton Ltd decided to raise funds through treasury bills, commercial bills etc.

Identify the type of market through which company decided to raise funds. State its two features.

10. Given below are two situations

- a) A commercial bank requires funds to maintain CRR.
b) A company requires funds for launching a new product line.

In relation to the above, two situations answer the following questions

- i) Which market should the organization approach in relation to A and B.
ii) State any two differences between such types of Market.

11. Few years ago, there were many malpractices and unfair trade practices like price rigging etc. All these had eroded investor's confidence and multiplied their grievances. To overcome these, Govt. of India decided to set up separate regulatory body for this purpose.

- a) Name the separate body set up by Govt. of India and when it was established.
b) Explain the regulatory function performed by it.

12. Supriya's grandmother who was unwell, called her and gave her a gift packet. Supriya opened the packet and saw many crumpled share certificates inside. Her grandmother told her that they had been left behind by her late grandfather.

As no trading is now done in physical form, Supriya wants to know the process by adopting which she is in a position to deal with these certificates.

- a) Identify and state the process.
b) Also give two reasons to Supriya why dealing with shares in physical form had been stopped?

13. Pradeep Industries is planning to issue equity shares to raise funds worth Rs.1,000 crores for its expansion and growth. The company has 4 directors and each director is suggesting different method for the new issue.

Name the market through which directors will offer. If the directors

- [i] Offer the entire new issue to Life Insurance Company.
[ii] Issue shares to public via issue houses and stock brokers.
[iii] First ask existing shareholders to apply for new issue as it is a compulsory requirement under Companies Act.

14. Saqib Ltd. is a large credit worthy company operating in the Kashmir Valley. It is an export oriented unit, dealing in exclusive embroidered shawls. The floods in the Valley have created many problems for the company. Many craftsmen and workers have been dislocated and raw material has been destroyed. The firm is therefore, unable to get an uninterrupted supply of raw material, and the duration of the production cycle has also increased. To add to the problems of the organisation, the suppliers of raw material who were earlier selling on credit are asking the company, for advance payment or cash payment on delivery. The company is facing a liquidity crisis. The CEO of the company feels that taking a bank loan is the only option with the company to meet its short term shortage of cash. As a finance manager of the company name and explain the alternative to bank borrowing that the company can use to resolve the crisis

15. Zaira Ltd.' is a large and creditworthy company manufacturing air-conditioned buses for the Indian market. It now wants to export these buses to other countries and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost, the company decides to tap the money market.

- (a) Name and explain the money market instrument the company can use for the above purpose.
- (b) What is the duration for which the company can get funds through this instrument ?
- (c) State any other purpose for which this instrument can be used.

16. The directors of a company want to modernize its plant and machinery by making an issue of shares. They wish to approach a stock exchange, while the financial manager wishes to approach a consultant for a new public issue of shares. Advise the director whether to approach the stock exchange or a consultant for the new public issue of shares and why? Also advise about the different methods available for making the new public issue of shares.

17. The Securities and Exchange Board of India has charged Mr. A Vellayan, Chairman of the Murugappa Group, one of India's leading business conglomerates, and directed the individuals and entities to surrender unlawful gains along with interest, a total amount of Rs 2.15 crore. The regulator alleged that Vellayan had passed on unpublished price sensitive information pertaining to the acquisition of Sabero Organic Gujarat by group entry, Coromandel International to some individuals who traded in the shares of Sabero on the basis of that information. Identify the malpractice highlighted in the above case .

18. A stock exchange maintains complete record of all transactions taking place in different securities every day and supplies regular information on their prices and sales volumes to press and other media. In fact, now-a-days, you can get information about minute to minute movement in prices of selected shares on TV channels like CNBC, Zee News, NDTV and Headlines Today. This enables the investors in taking quick decisions on purchase and sale of securities in which they are interested. Not only that, such information helps them in ascertaining the trend in prices and the worth of their holdings. This enables them to seek bank loans, if required. Identify the function of stock exchange highlighted in the above case and explain three other functions.

19. In the 2nd five year plan, "Industrialisation" was the "Main Focus". But the major problem was saving and Investment Household used to invest in GOLD & Property only. Government had to take initiative for establishing Infrastructure and other basic industries. With pace of economic development, small savings were promoted by establishing an organised market. This market is regulated by SEBI and has attributed a lot in economic development.

- (i) Identify the market.
- (ii) Name two functions of this market.

20. Rajan had misplaced his number of share certificates while shifting his house. After a long time he was able to trace his share certificates. Now he was facing a problem in selling them off. He shared his problem with one of his relatives who told him that he would now have to get his shares converted into electronic form and put it in an account.

1. Name the account which is required to be opened to deal in shares.
2. With whom will he have to open this account.
3. Also name two organisations which can keep those shares in electronic form.

21. Charu is a chartered 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 behavior. Write any three other functions of this authority.

Q22. Explain Trading procedure on a stock Exchange.

Q23. To promote orderly and healthy environment of securities market and for the protection of the investors SEBI was set up. Explain the objective and functions of SEBI.

Q24. Explain four methods of floatation of new issues in the primary market.

Q25. Differentiate between Primary and Secondary market.

Q26. Differentiate between Money market and Capital market.

Q27. What is T+2 rolling settlement?

Q28. The separation of ownership and control of stock exchanges from the trading rights of its members has reduced the conflict of interest between stock exchange and brokers. Discuss and explain the concept highlighted here.