Economics Class 26

DERIVATIVES (CONTINUES) (09:02 AM)

- **Options-** It is a contract where the buyer/seller has a right to buy/sell the underlying asset at a predetermined rate and date in future. (Right but not the obligation)
- Options are also traded on the exchange.
- **Put option-** Right to sell but not obligated to sell.
- **Call option-** Right to buy but not obligated to buy.
- **Swaps-** Swaps are derivatives that are used to manage risks of various kinds.
- These are generally used to manage interest rate risks and currency risks.

TECHNICAL TERMS (09:35 AM)

- **Public issue-**
- In the new issue market, if any company or financial corporation (issuer) issues shares for the first time, it is called an initial public offering, the issuer may be an existing company, or maybe a new startup and if any company that has already issued shares issues shares again to raise additional funds, it is called as follow on public offer.
- There are two ways of issuing securities in the new issue market, one is the declared price issue. 1. Declared Price Issue

2• **Book Building Issue-**

- In the case of declared price selling the issuer offers shares at a pre-fixed price. In book building, the price is not announced and the issuer offers the shares, it gets applications from the public and then based on demand fixes the price. If the demand is high, the price is fixed high and vice versa.
- In both IPOs and FPOs, the issuer usually does not issue the securities directly.
- The issuer appoints a merchant banker on behalf of it to carry out the fundraising activities.

- **Private Placement-**
- It means offering shares directly to financial institutions, mutual fund companies and high-worth investors. Private placements are made to qualified institutional buyers.
- **Qualified institutional buyers (QIB)**
- **QIBs** are those who are deemed to be financially sophisticated and are recognised by security market regulators to need less protection from issuers than most public investors.
- Institutions like mutual funds, insurance companies, financial institutions, scheduled commercial banks, pension fund companies etc. fall under the definition of QIB.
- **Rights Issue (10:17 am)**
- It refers to the offer of security to the existing shareholders in the follow on public offer.
- It flows to the existing shareholder as a matter of right so it is called a rights issue.
- **Bonus issue**
- It refers to the offer of shares against distributable profit to existing shareholders.
- The shareholder share in the profit is converted as shares. It is also called a script issue or capitalisation issue.
- **Sweat equity issue**
- It denotes the offer of shares to employees or directors of the company as a recognition of their hard labour (sweat) which results in contribution to the company in the form of intellectual property rights, technical know-how etc.
- It is usually issued at a discounted price.

FATF: Financial Action Task Force combat money laundering and terror financing

- **Depositories**
- Depositories are institutions that keep securities of investors in electronic format (demat format).
- Demat stands for dematerialised. It means securities that were kept in paper formation are now converted into dematerialised or electronic format.
- This electronic format is stored and maintained by these depositories.
- In India, there are two depositories- **National Securities Depositories Limited (NSDL) and Central Depository Services India Limited (CDSL).**
- **Merchant banker**
- It has been defined under SEBI Rules, 1992 as any person who is engaged in the business of the issue management either by making arrangements regarding selling, buying, or subscribing to securities as a manager, consultant, advisor or rendering corporate advisory services.
- A merchant bank is also called an investment company.
- **Short Selling-**
- In short selling, the seller sells securities without owning the securities and buys them back after a certain period.
- In India, an MIS (Margin Intraday settlement) account is required.

INFRASTRUCTURE (INFRA) (11:25 AM)

- **Need of Infrastructure**
- It is a set of basic physical systems of a business, region, or nation that is fundamental is the sustainable functionality of the very entity itself i.e. these are basic facilities necessary for the proper functioning of an economy and society.
- **Different types of Infrastructure**
- **1) Social Infrastructure-** These include housing, health, education etc.
- **2) Economic Infrastructure-** This refers to a set of fundamental structures that support the process of production and distribution in an economy. E.g. Transportation, Power, Communication etc.
- **3) Soft Infrastructure-** It refers to infrastructure that comprises institutions that help maintain the economy. They include the delivery of certain essential services to the population. Human capital usually forms the main component of this infra. E.g. Healthcare systems, Financial systems, Education systems etc.
- **4) Hard Infrastructure-** It refers to the physical system that is necessary for running a nation. E.g. Roads, Highways, Bridges etc.

TOPIC OF THE NEXT CLASS- INFRASTRUCTURE (TO CONTINUE)