Personal Finance Management

Module I

1. What are Objectives of Financial Management, explain them in brief.

- To create awareness and educate consumers on access to financial services.
- To make the students understand the basic concepts, definitions and terms related to direct taxation.
- To help the students compute the Goods and Service Tax (GST) payable by a supplier after considering the eligible input tax credit.
- To familiarise the students with microfinance for accelerating the expansion of local microbusinesses.

2. What is importance of financial management for businesses.

1. Resource Allocation: It helps in allocating financial resources efficiently. This means making informed decisions about where to invest or save money, ensuring that it is used in the most productive way.

2. Risk Management: Financial management helps in identifying and mitigating financial risks. It involves managing cash flow, budgeting, and planning for unexpected expenses to ensure the business can weather economic downturns or unexpected events.

3. Profit Maximization: It plays a pivotal role in maximizing profits. By monitoring revenues and expenses, a business can identify opportunities to increase revenue or reduce costs, ultimately increasing profitability.

4. Capital Management: Businesses need to raise and manage capital effectively. Financial management helps in deciding the right mix of equity and debt financing and how to use these funds to support growth and operations.

5. Long-term Viability: Good financial management ensures the long-term sustainability of the business. By managing cash flow and resources effectively, a business can remain solvent and continue its operations even during economic downturns.

6. Compliance: Businesses must adhere to various financial regulations and reporting requirements. Effective financial management ensures compliance with these regulations, reducing the risk of legal issues and penalties.

7. Investor and Creditor Confidence: Sound financial management instills confidence in investors and creditors. When they see that a business is managing its finances prudently, they are more likely to invest in or lend to the company.

8. Strategic Planning: Financial management is integral to strategic planning. It helps a business set financial goals, make projections, and create budgets to achieve these objectives.

3. Write down the classification of financial markets.

A financial market is a common place where the buyers and the sellers of financial instruments meet and exchange products. Stock exchange may be termed as a place where these transactions take place and a location for the financial market.

In India, financial markets are classified as unorganized and organised markets.

- ORGANISED MONEY STRUCTURE

  PARTICIPANTS:
  - Reserve bank of India
  - DFHI (discount and finance house of India)
  - Commercial banks:-
    - Public sector banks
      - SBI with 7 subsidiaries
      - Cooperative banks
      - 20 nationalized banks
    - Private banks
      - Indian Banks
      - Foreign banks
  - Development bank - IDBI, IFCI, ICICI, NABARD, LIC, GIC, UTI etc.

- UNORGANISED MONEY STRUCTURE

  - Indigenous

    Private firms that receive deposits and give loans and thereby operate as banks
    As activities are not regulated properly ,they are unorganized segment
    Broadly classified into 4 groups-
    GUJRATI SHROFFS, MULTANI SHROFFS, CHETTIARS AND MARWARI KAYAS

  - Money lenders

    Broadly classified into 3 categories:
    PROFESSIONAL MONEYLENDERS, ITINERANT MONEYLENDERS, NON PROFESSIONAL MONEYLENDERS

  - Unregulated Intermediaries

FINANCE COMPANIES- gives loans to the retailers, artisans and other self-employed persons
CHIT FUNDS- are saving institutions
NIDHIS- operate in unregulated credit market and provide kind of mutual benefit funds

Financial market is also classified in two types of markets: Money and Capital Market

- Money Market

    - It means a ready market or a short-term market where securities are bought or sold only for a very short duration.
    - The tenure usually does not exceed one year thus is considered to be an equivalent to cash only.
    - The securities are highly liquid in nature and can be readily converted to the cash.
    - The transaction cost is also the minimum
    - Disadvantages: Absence of integration, Shortage of funds, Lower rate of return, Larger amount of transaction fee

- Capital Market

    - It is a market where securities are usually held for long-term basis, i.e., more than one year. They do not have a fixed maturity or expiry date. The buyer can hold the same, till the time he wishes to do so.

      1) Equity Market :
      It comprises of the equity shares of the company. Equity shares are further classified in two categories :

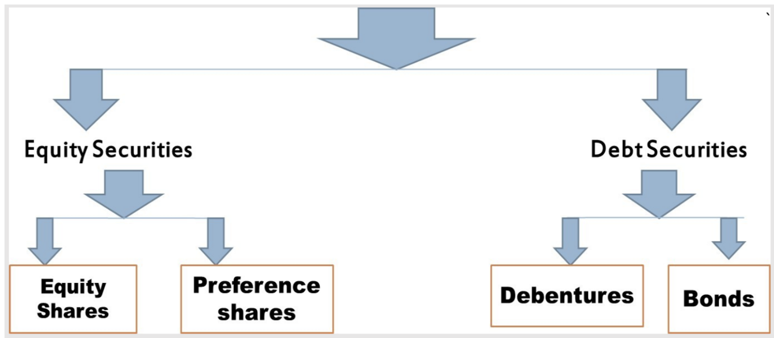
        i) Primary Market :
        Where the shares are. being sold for the very first time, i.e., Initial Public Offer (IPO) and Right Issues.

        ii) Secondary Market :
        Where the existing shares are bought or sold, after they were originally issued to the public. These shares are listed on stock exchange through which they can be traded.

      2) Debt Market :
      It is the financial market in which debt securities are bought and sold by the investors. These securities are in the nature of bonds or debentures and carry a fixed rate of return. They are fixed income bearing securities that are issued by the Central and State Governments municipal corporations,

other government bodies, and commercial entities like financial institutions, banks, PSU, public limited companies, etc.

4. What different types of financial instruments are traded in the capital markets?



Long-Term Financial Instruments :
This sub-category comprises instruments with maturity longer than those of short- and medium term instruments. Some of the long-term instruments are as follows :

1. Equity Shares:

   Equity shares are also termed as ordinary shares or common shares.
   Holders of the equity shares are the owners of the company as they have invested in the company. They have the voting rights and part of decision-making process on major issues relating to the affairs of the company. The shareholders' return on the funds invested by them in the company is in the form of 'Dividend".

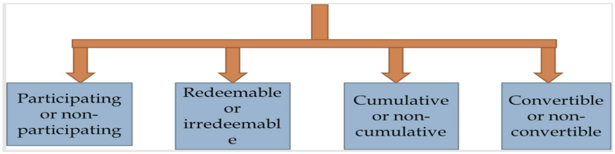
   Merits:
   A permanent source of finance to the company
   No fixed rate of dividend
   Easy liquidity and marketability

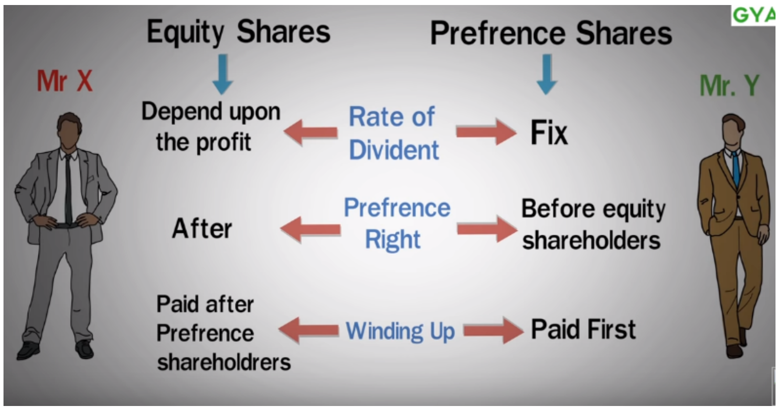
   Limitations:
   No guarantee on returns to shareholders
   Loss of managerial control

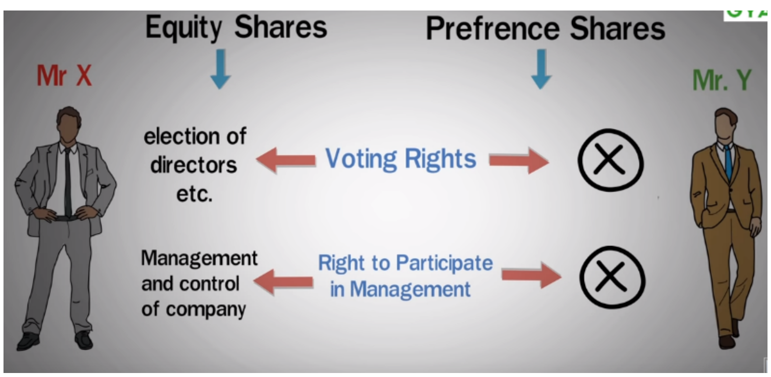
2. Preference Shares:

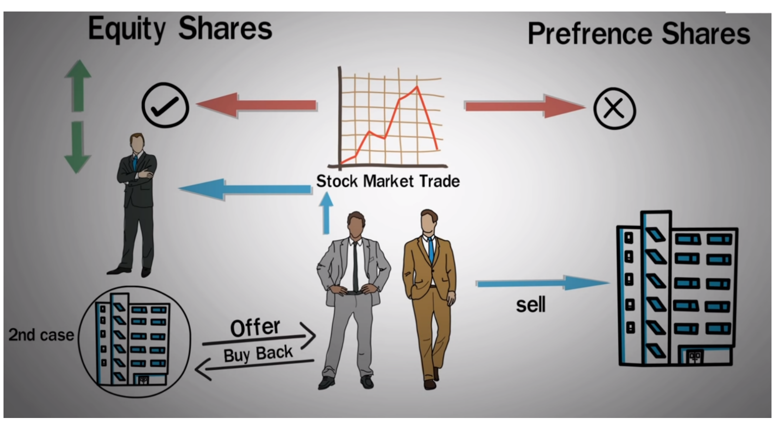
   Preference shares have the unique characteristics of being hybrid in nature, i.e., they have certain features of equity and at the same time certain features of debentures. It is similar to equity shares in the following ways:
   From disposable profits, the dividend of preference shares is paid.
   Preference dividend is not compulsory for the payment of fixed amount of dividend. It totally depends upon the director's decision.

There is no tax-deduction in Preference Dividend.





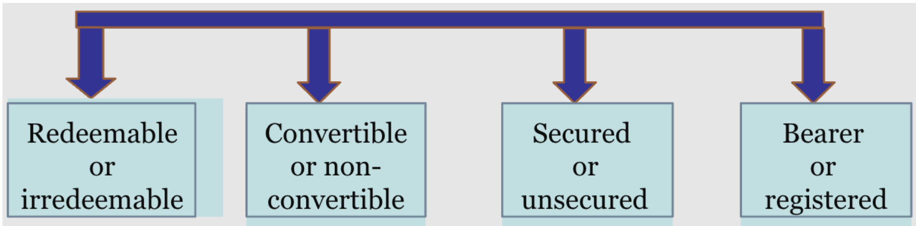


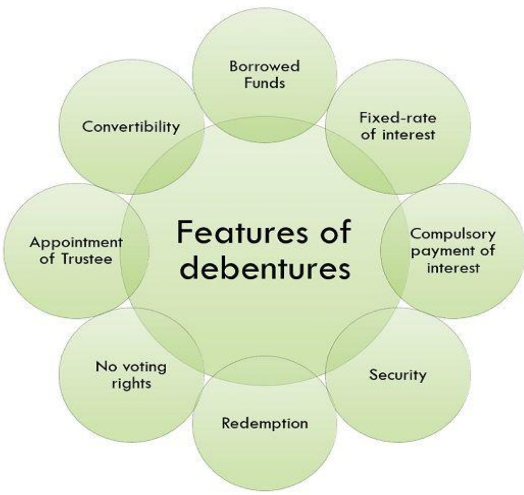


3. Debentures:

A debenture is an instrument through which an Indian Public Limited Company can raise funds from the market. A debenture is signed by the company with its seal, to acknowledge the debt of the person(s). ensuring the advanced amount of debt. So this is a security issued by a company against debt.

A company may issue debentures after getting Certificate of Commencement of Business, provided its Memorandum of Association contain a clause which permits the company to issue debentures.





Bases of differences	shares	Debentures
ownership	The share of a company provides ownership to the shareholders.	The debenture holders provide loan, thus, debenture holders are creditors of a company.
Form of return	The shareholder gets the return in form of dividend.	The debenture holders get the return in form of interest.
identify	Person holding shares is known as shareholder.	Person holding a debenture is knows as debentures holders.
Certainty of return	No certainty of returns in case of loss.	The rate of interest is fixed and is to be paid even if there is no profit.
repayment	Repayment if the company liquidates and fund are available.	Repayment during its lifetime or at the specified period.
convertibility	Shares can't be converted into debentures	Debentures can be converted into shares.
control	Shareholders have the right to participate and vote in company's meeting.	Debenture holders do not possess any voting rights and can's participate in meetings.
Priority of repayment	The shareholders get the payments after the debenture holders get.	The debenture holders get the first priority on payment.
charge	The dividend is not deducted from taxable income.	The interest is deducted from taxable income.

4. Term Loan:

   Term loans are loans procured for the acquisition of fixed assets and working capital margins and are repayable over a long period of time, generally ranging between one year and ten years. Term loans are extended by banks and other financial institutions set up for the purpose of extending term finance.
   Term loans differ from short-term bank loans, also known as 'Working Capital Finance', which are sanctioned by banks to meet day-to-day business requirements like purchase of raw material, work-in-progress and finished goods, etc. They are self liquidating over a period of time.

5. Bonds:

   A bond is a debt security, in which the authorized issuer owes the holder a debt and is obliged to repay the principal and interest (the coupon) at a later date, termed maturity. A bond is simply a loan in the form of a security with different terminology; the issuer is equivalent the borrower, the bond holder to the lender, and the coupon to the interest. Bonds enable the issuer to finance long-term investments with external funds. Bonds are issued by public authorities, credit institutions, companies and supranational institutions in the primary markets.

Types of bonds:

- Bearer bonds
- Registered bonds
- Callable bonds
- Convertible bonds
- Zero coupon bonds
- Fixed rate bonds

Bond	Debenture
A bond is a financial instrument showing the indebtedness of the issuing body towards its holders.	A debt instrument used to raise long term finance is known as Debentures.
Bonds are generally secured by collateral.	Can be Secured or Unsecured.
Low Interest Rates	High Interest Rates.
Issued by Govt Agencies, Financial institution, Corporation etc.	Issued by Public Companies
Accrued	Periodical payments

5. What role of capital market in India's Industrial growth?

It is a market where securities are usually held for long-term basis, i.e., more than one year. They do not have a fixed maturity or expiry date. The buyer can hold the same, till the time he wishes to do so.

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Further roles:

- Source of Funding
- Facilitating Investment
- Liquidity and Exit Strategy
- Efficient Allocation of Capital

- Secondary Market Trading
- Corporate Governance and Transparency

6. **What is the role of SEBI in capital market?**

Regulatory institutions are the ones who provides rules and guidelines for a particular market. It comprises of RBI, SEBI, IRDA, AMC, etc. Primarily, an investor would want the funds to be under the control and to be safe to invest. This assurance is rendered by the regulatory authority that is regulating the particular market. For example, money market instruments are regulated by the RBI whereas the capital market instruments are regulated by SEBI.

- The Securities and Exchange Board of India (SEBI) plays a crucial role in regulating and overseeing the activities in the capital market of India. Its primary role is to protect the interests of investors, promote the development of the capital market, and ensure the integrity and transparency of the market. Here are the key roles of SEBI in the Indian capital market:

- Regulatory Oversight: SEBI is the primary regulatory authority for the securities market in India. It formulates and enforces regulations to govern various participants and entities in the capital market, including stock exchanges, brokers, investment funds, and listed companies.

- Investor Protection: SEBI's foremost responsibility is to protect the interests of investors. It achieves this by regulating and supervising various market participants, ensuring that they comply with rules and regulations that promote fair and transparent dealings in the market. SEBI works to prevent fraudulent and unfair trade practices that could harm investors.

- Market Development: SEBI plays an active role in promoting the development and growth of the capital market in India. It introduces measures to attract investment, increase market liquidity, and encourage the listing of companies on stock exchanges.

- Regulation of Intermediaries: SEBI regulates various intermediaries in the securities market, such as stockbrokers, merchant bankers, mutual funds, and credit rating agencies. It sets and enforces standards for their conduct, operations, and capital adequacy, which helps maintain market integrity.

- Regulation of Stock Exchanges: SEBI regulates stock exchanges to ensure they operate efficiently and transparently. It monitors the functioning of stock exchanges, enforces listing requirements, and oversees trading practices to maintain market order.

- Listing Requirements: SEBI prescribes listing requirements for companies seeking to go public and be listed on stock exchanges. These requirements include disclosures and corporate governance standards to protect investors and ensure transparency.

7. What is money market and what are different instruments of the Money market?

Money market means a ready market or a short-term market where securities are bought or sold only for a very short duration. The tenure usually does not exceed one year thus is considered to be an equivalent to cash only. The securities are highly liquid in nature and can be readily converted to the cash. The transaction cost is also the minimum.

Money market instruments:

1. Call/Notice Money
    - Call/Notice money is the money borrowed or lent on demand for a very short period. When money is borrowed or lent for a day, it is known as Call (Overnight) Money.
    - Intervening holidays and/or Sunday are excluded for this purpose. Thus money, borrowed on a day and repaid on the next working day, (irrespective of the number of intervening holidays) is "Call Money".
    - When money is borrowed or lent for more than a day and up to 14 days, it is "Notice Money". No collateral security is required to cover these transactions.

2. Treasury Bills
    - Treasury bills show the responsibilities of Government of India.
    - It is basically of 91 days and 364 days. They are given to the customers on the auction basis every week which has certain small denominations which are issued by the Reserve Bank of India.
    - It does not have any specific interest rate so they are sold on discount or are redeem at par.

3. Inter-Bank Term Money
    - Inter-bank market for deposits of maturity beyond 14 days is referred to as the term money market.
    - The entry restrictions are the same as those for Call/Notice Money except that, as per existing regulations, the specified entities are not allowed to lend beyond 14 days.

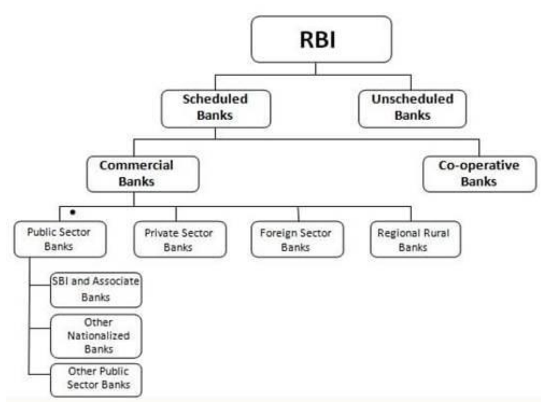
4. Certificate of Deposit
    - CD is also a money market instrument issued by banks to the depositors, in the form of certificate showing the existence of such deposit with them.
    - These certificates are in turn traded by the depositors (when such a need arises) between their business associates.
    - In short, under this arrangement, the Bank deposit may be transferred from one owner to another, any number of times, before its maturity.
    - Interest on such deposits continues to be paid in the normal course.
    - The price of CD depends on the (a) Rate of interest available on the Bank Deposit (which is fixed), and (b) Rate of interest prevailing in the market at that particular time.

5. Commercial Papers
    - A commercial paper is an unsecured promissory note and money market instrument, issued by large corporate houses for raising funds with a view to meeting their short-term debt obligations such as payroll.
    - CP is not secured by collateral security. It is supported by an issuing bank or company who promise to pay the face value at the maturity date indicated on the note,
    - As it is an unsecured instrument, only the organizations with exceptional credit ratings are capable of issuing their commercial paper at an economical price.
    - The maturity period of Commercial Paper ranges between 15 days and one year. On maturity date, the issuer has to repay the due amount without any delay. There is no provision of grace period in this case.

    - Merits:
      Technically, it provides more funds compared to other sources. The cost of commercial paper to the issuing firm is lower than the cost of commercial bank loans.
      It is in freely transferable nature, therefore it has high liquidity also a wide range of maturity provide more flexibility.
      A commercial paper is highly secure and does not contain any restrictive condition.
      Companies can save their extra funds on commercial paper and also earn some good return on the same.
      Commercial papers produce a continuing source of funds. This is because their maturity can be tailored to suit the needs of issuing firm. Again, commercial paper that matures can be repaid by selling the new commercial paper.

    - Limitations:
      Only financially secure and highly rated organizations can raise money through commercial papers. New and moderately rated organizations are not in a position to raise funds by this method.
      The amount of money that we can raise through commercial paper is limited to the deductible liquidity available with the suppliers of funds at a particular time.
      Commercial paper is an odd method of financing. As such if a firm is not in a position to redeem its paper due to financial difficulties, extending the duration of commercial paper is not possible.

8. What is role of RBI in Indian economy?



- Monetary Policy Management: The RBI formulates and implements the monetary policy of India. It uses tools like the repo rate, reverse repo rate, and the cash reserve ratio (CRR) to control money supply, interest rates, and inflation in the economy. The aim is to maintain price stability and promote economic growth.

- Currency Issuance and Management: The RBI is the sole authority for the issuance and management of currency in India. It ensures an adequate supply of currency notes and coins to meet the demands of the economy.

- Banker to the Government: The RBI acts as the banker and fiscal agent to both the central and state governments. It manages the government's accounts, handles its borrowing program, and conducts government transactions.

- Regulator and Supervisor of Banks: The RBI regulates and supervises the banking sector in India to ensure financial stability. It sets rules and regulations for banks, monitors their activities, and takes corrective actions when necessary.

- Lender of Last Resort: The RBI serves as a lender of last resort to banks in times of financial crises. It provides financial support and liquidity to banks facing liquidity problems to prevent systemic instability.

- Foreign Exchange Management: The RBI manages India's foreign exchange reserves and formulates exchange rate policies. It intervenes in the foreign exchange market to stabilize the rupee's exchange rate and protect the country's foreign exchange reserves.

9. State difference between Cooperative and Commercial Banks?

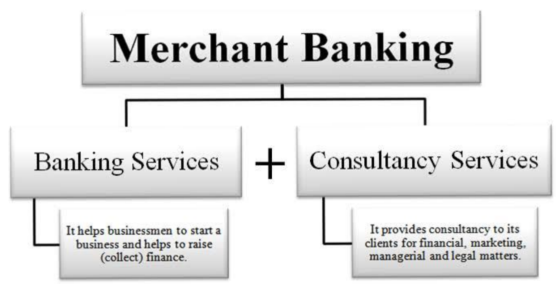
Differences Between Cooperative and Commercial Banks

	Commercial Banks	Cooperative Banks
Registration	Banking Regulation Act, 1949	The Co-operative Societies Act, 1904 of the concerned state.
Main Objective	To accept deposits from public for the purpose of lending to industry and commerce.	To accept deposits from the members and the public for the purpose of providing loans to farmers and small businessmen with a motto of service.
Availability of Funds	Massive funds	Limited funds
Area of Operation	Operate over a larger area	Limited and mostly confined to State.
Nationalisation	Nationalised banks	These are not nationalised banks.

	Commercial Banks	Cooperative Banks
Merchant Banking Services	Provide merchant banking services such as advising the companies regarding the public issue of shares.	Do not provide merchant banking services.
Mutual Funds	Do operate mutual funds	Do not operate mutual funds.
Basis of operation	Operates on the commercial principles. They operate to earn a profit.	The basis of operations is on co-operative lines, i.e. service to its members and the society.
Rate of Interest	Provide a lesser rate of interest as compared to co-operative banks.	A little higher rate of interest on deposits as compared to commercial banks.

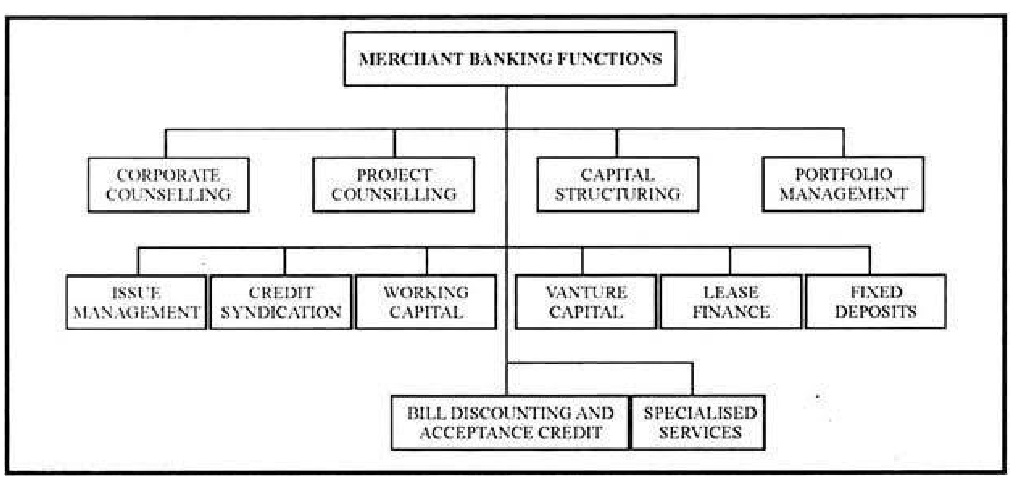
10. What is meant by Merchant bank and what are its functions?

A merchant banker usually refers to a firm or organization involved in all aspects of issue management. Their services include providing consultancy or advisory services to corporates for issue management, making arrangements for buying, selling or subscribing to shares in an issue or any other consultancy or services such as underwriting, analysis and advice related to mergers and acquisitions, arranging offshore funding or venture capital, credit syndication and portfolio management.



Merchant Banking act as Financial Engineer for a Business.

Functions:



Leading merchant bankers in India

- Public sector: SBI Capital Markets, Punjab National bank, IFCI Financial Services
- Private sector: ICICI Securities, Axis Bank, Bajaj Capital, Tata Capital Markets, Yes Bank, Kotak Mahindra Capital Company, Reliance Securities
- Foreign merchant bankers: Goldman Sachs (India) Securities, Morgan Stanley India, Barclays Securities (India), Bank of America, Citigroup Global Markets India

Module II

1. What are the different types of loans? Explain in Brief.

- Home
    - Secured loan, Collateral - Property (documents / agreement)
    - Disbursed as per the demand of the builder / lump sum
    - High-value funding, Economical interest rates
    - Long tenure (10 to 20 years)
    - Repayment through EMIs
    - Income tax rebate on interest and principal amount paid
    - After repayment the property's title is transferred back to the borrower

- Automobile
    - Secured loan, Collateral – Automobile (documents)
    - Medium-value funding
    - Economical interest rates (> home loan)
    - Short tenure (5 to 7 years)
    - Repayment through EMIs.
    - After repayment the automobile's title is transferred back to the borrower.

- Mortgages against property
    - Secured loan
    - Property is mortgaged / collateral
    - Rate of interest can be around 8 to 10 %
    - Tenure can be 3 to 15 years
    - Amount is big as compared to jewel loan
    - Top up loan over housing loan

- Mortgages against jewel
    - Secured loan
    - Jewel / gold is mortgaged / collateral
    - Tenure can be shorter
    - One time repayment possible
    - Rate of interest is more

- Cash Advances
    - Cash advances is the facility provided by the card issuers.

- Cash can be withdrawn immediately.
- Rate of interest is higher

- Credit cards
  - Credit card offered based on eligibility.
  - Credit limit is set.
  - Rate of interest is very high.
  - EMI repayment is mandatory, failing attracts higher interest
  - Credit period 45 to 60 days.
  - Cash bag offers on credit card payments.

- Payday
  - Short term loans
  - Tenure is of 30 days.
  - Sanctioned on the basis of monthly income
  - Rate of interest is high

- Dept Consolidation
  - New loan to pay off old loans or liabilities
  - Multiple debts are combined in to single larger loan
  - Rate of interest is lower with lower EMIs

- Business
  - Used for running the business
  - Interest rates are high
  - Tax exemption is applicable
  - Liability is with all the partners in the company
  - Provided by banks, finance companies, etc

- Personal

- Student / Education

2. What things should be considered when taking a home loan?

- Loan Amount and Eligibility: Determine the amount of the loan you need to purchase a home and ensure you meet the lender's eligibility criteria. Lenders consider factors like your income, credit score, and existing financial obligations to determine how much you can borrow. It's crucial to borrow an amount that you can comfortably repay.

- Interest Rate and Loan Type: Compare interest rates offered by different lenders and choose the one that suits your financial situation. Decide between fixed-rate and adjustable-rate mortgages. Fixed-rate mortgages offer stable monthly payments, while adjustable-rate mortgages may have lower initial rates but can change over time, impacting your payments.

- Loan Tenure: Consider the loan tenure or the number of years over which you'll repay the loan. A longer tenure reduces monthly payments but increases the overall interest cost. A shorter tenure means higher monthly payments but lower interest expenses.

- Down Payment and Associated Costs: Determine the down payment you can afford, as this will affect the loan amount and your monthly payments. Additionally, factor in other costs such as property registration fees, legal fees, and insurance, as these can add to the overall cost of homeownership.

- Credit Score and Credit History: Your credit score plays a significant role in determining your loan eligibility and the interest rate you receive. Maintain a good credit history by paying bills on time and managing your existing debt. A higher credit score can lead to a lower interest rate on your home loan.

- Loan Repayment Capacity: Assess your repayment capacity by considering your current and future financial situation. Ensure that your monthly EMI (Equated Monthly Installment) payments are affordable, allowing you to manage your other financial goals and emergencies comfortably.

3. What is the difference between secured and unsecured loans?

- Secured loan
    - Needs security (Collateral)
    - Property / vehicle documents as collateral
    - Interest rate is low as compared to unsecured loan

- Unsecured loan
    - Security not needed (no collateral)
    - No documents required as collateral
    - Interest rates are high as compared to secured loans

4. What is meant by a Loan against property? Explain in Brief.

Loan Against Property (LAP), also known as a mortgage loan, is a secured loan where individuals or businesses pledge their property, typically a residential or commercial property, as collateral to obtain a loan from a financial institution, such as a bank or a non-banking financial company (NBFC). Here are six key points to understand Loan Against Property:

- Collateral: LAP involves using a property, like a house, apartment, or commercial building, as collateral to secure the loan. The property is pledged to the lender, who holds it as security until the loan is fully repaid.

- Loan Amount: The loan amount is determined based on the market value of the property, and lenders typically offer a percentage of the property's value, known as the loan-to-value (LTV) ratio. LTV ratios often range from 50% to 70% of the property's market value.

- Purpose: Loan Against Property can be used for various purposes, including financing business expansion, funding education, consolidating debts, purchasing another property, or meeting substantial financial requirements.

- Interest Rate: Interest rates for LAP are generally lower than unsecured loans because the property serves as collateral. Borrowers can choose between fixed or floating interest rates, depending on the loan terms.

- Repayment: Borrowers make regular payments, usually in the form of Equated Monthly Installments (EMIs), which include both principal and interest. Loan tenures vary but are typically between 5 to 20 years.

- Risk: The risk associated with Loan Against Property is that if the borrower fails to repay the loan, the lender has the legal right to take possession of the property and sell it to recover the outstanding debt. Therefore, borrowers must be confident in their ability to meet repayment obligations.

5. What is meant by Loan against Jewellery? Explain in Brief.

Loan against Jewellery is a form of secured loan where individuals pledge their gold or diamond jewelry as collateral to obtain a loan from a financial institution, typically a bank or a non-banking financial company (NBFC). Here are six key points to understand Loan against Jewellery:

- Collateral: In this type of loan, jewelry items like gold ornaments, necklaces, bangles, or diamond jewelry are provided as collateral to secure the loan. The lender holds the jewelry until the loan is repaid.

- Valuation: The lender assesses the purity and weight of the jewelry to determine its market value. The loan amount granted is a percentage of the jewelry's appraised value, usually around 75% to 90%.

- Purpose: Borrowers can use the loan against jewelry for various purposes, including meeting financial emergencies, funding education, paying medical bills, or any other short-term financial need.

- Interest Rate: The interest rates for loans against jewelry are generally lower than unsecured loans but may vary among lenders. They can be fixed or floating, depending on the terms of the loan.

- Repayment: Repayment is typically done through regular installments, and the loan term is relatively short, often ranging from a few months to a few years. Borrowers need to make periodic payments, which include both principal and interest.

- Risk: If the borrower fails to repay the loan, the lender has the right to sell the pledged jewelry to recover the outstanding debt. Therefore, borrowers should be cautious and confident in their ability to meet repayment obligations.

6. What are Term Deposits? What are the different types of Term Deposits?

Term deposits, often referred to as fixed deposits (FDs) or time deposits, are financial instruments offered by banks and other financial institutions that allow individuals and businesses to deposit a specific amount of money for a predetermined period, or "term."

- Stable not market linked, Risk free investment
- Safe return on investments
- Minimal amount can be invested, Sum of money is kept for a fixed tenure
- Depositor is not allowed to withdraw this sum till the end of the maturity period

Types: Recurring deposit and Fixed deposit

Aspect	Recurring Deposit (RD)	Fixed Deposit (FD)
Investment Frequency	Fixed amount at fixed intervals (e.g., monthly)	One-time lump-sum investment
Interest Payment Frequency	Interest is typically reinvested	Interest can be reinvested or deposited to a savings account
Rate of Interest	Rate of interest varies	Rate of interest depends on the tenure
Tenure	6 months to 10 years	7 days to 10 years
Maturity Date Flexibility	Maturity date cannot be changed	Maturity date is fixed at the time of deposit
Service Charges	Typically no service charges	Typically no service charges
Premature Withdrawal	Possible, but usually subject to a penalty	Possible, subject to a penalty

7. What is the difference between Term Deposit and Fixed Deposit?

Aspect	Term Deposit	Fixed Deposit
Definition	A financial product where a sum of money is deposited with a financial institution for a specified term or tenure.	A financial product where a lump-sum amount is deposited with a financial institution for a specified term or tenure.
Deposit Frequency	Funds can be deposited at regular intervals (e.g., monthly), with the flexibility to add to the deposit.	A one-time lump-sum deposit is made at the beginning of the deposit term.
Interest Payment Frequency	Interest is typically reinvested, and the principal and interest are paid together at maturity.	Interest can be paid out at regular intervals (e.g., monthly, quarterly, annually) or reinvested, depending on the depositor's choice.
Rate of Interest	The rate of interest can vary based on the tenure and policies of the financial institution.	The rate of interest depends on the tenure and is typically fixed at the time of deposit.
Tenure	The tenure can vary, typically ranging from a few months to several years, depending on the financial institution.	Tenure options can vary, usually ranging from a few months to several years, depending on the financial institution.
Maturity Date Flexibility	The maturity date is predetermined and cannot be changed.	The maturity date is fixed at the time of deposit and cannot be changed.
Service Charges	Typically, there are no service charges associated with term deposits.	Typically, there are no service charges associated with fixed deposits.
Premature Withdrawal	Premature withdrawal may be possible, but it is often subject to a penalty, and the interest rate may be adjusted.	Premature withdrawal is possible, but it is typically subject to a penalty, and the interest rate may be adjusted.

8. Name five government schemes that are good for investment and explain them in brief.

1. ATAL PENSION YOJANA (APY)

    - Social security scheme offered by the Indian Government for people who work in the unorganized sectors.
    - Best option for economically weaker sections
    - Give ways to select a pension plan for a better future.
    - Citizens within the age group 18-40.
    - Guaranteed pension ranging from Rs. 1000 to Rs. 5000 based on the tenure and investment amount.

2. PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)

    - Aims at providing financial services and products for individuals who don't have a bank account.

- Minimum age to open an account is 18 years and 10 years for minors.
- Zero balance account
- Savings account offers an overdraft facility based on bank transactions and operations.
- The premium paid towards the policy is eligible for tax benefits as under section 80C of the Income Tax Act.

3. SUKANYA SAMRIDDHI YOJANA (SSY)

- Best investment plans for parents of a girl child
- Launched in 2015
- Aims at uplifting the life of a girl child that will help gain more advantages.
- Minimum amount to invest for this scheme is Rs. 1000, and the maximum amount is Rs. 1.5 lakhs per annum.
- Payment tenure is 15 years
- Parents can open an account in a girl's name until she attains 10 years.
- SSY scheme are eligible for deductions under Section 80C, subject to a maximum cap of Rs 1.5 lakh.

4. NATIONAL PENSION SCHEME (NPS)

- A national pension scheme is open to all government employees in India.
- Top investment plans available for living independently after retirement.
- Investors can even allocate the funds in equities and government securities based on their choices.
- Investments made up to Rs. 50,000 are eligible for tax deductions under the income tax act.
- NPS sunscribers can claim tax benefit under Sec 80 CCD (1) with in the overall ceiling of Rs. 1.5 lac under Sec 80 CCE.
- An additional deduction for investment up to Rs. 50,000 in NPS (Tier I account) is available exclusively to NPS subscribers under subsection 80CCD (1B).

5. SOVEREIGN GOLD BONDS (SGBS)

- Best option available for investors when they don't want to own and save gold.
- Bond comes in Demat form.
- TDS is not applicable.
- Best government investment schemes available due to its transparency.
- Safe scheme that will help provide financial stability.

6. PUBLIC PROVIDENT FUND (PPF)

- A risk-free option that gives ways to get high returns.
- Government will determine the interest rates.
- Tenure is 15 years, extended up to 5 years

- Tax saver (EEE category – Exempt-Exempt-Exempt): all investments are deductible under Section 80C of the Income Tax Act.

7. PRIME MINISTER VAYA VANDANA YOJANA (PMVVY)

    - Retirement cum pension plan for senior citizens above 60 years.
    - Regular fixed sum with an interest rate of 8% to 8.3% for 10 years.
    - Exempted from ST or GST
    - Loan up to 75% of purchased price after 3 policy years
    - Premature exit for treatment of any critical / terminal illness of self or spouse.

8. NATIONAL SAVINGS SCHEME (NSC)

    - Best savings plan available for individuals to meet essential financial planning needs.
    - Minimum investment is Rs.100
    - Maximum no limit
    - Fixed interest rates based on inflation and other factors
    - Only Indian residents are eligible to apply for the scheme

9. What do you understand by the term Government securities explain them in brief?

Government securities are financial instruments issued by a government, typically the central government, to raise funds. These securities are considered among the safest investments because they are backed by the full faith and credit of the government. Investors purchase government securities in exchange for a fixed or variable interest rate and the promise of repayment at a specified maturity date. They are generally considered low-risk investments because the likelihood of a government defaulting on its debt obligations is extremely low. These securities are an integral part of the capital market and are widely used by investors seeking safety and stable returns.

- Bonds and treasury bills (T-bills) are issues to investors
- Can be selected based on investor’s choices
- Maturity period may range from 91 days to 40 years depending on the securities
- High returns that will help generate high income effectively
- Can even use them as collateral when they want to borrow funds
- Helps a lot to maintain a better cash flow to overcome financial obstacles.

10. State differences between Bonds and Securities.

10 Usual Differences Between Bonds and Debentures

BONDS	VS	DEBENTURES
A bond is a debt instrument issued by private and public organizations to collect funds from the people with the commitment to pay periodic interests and repay the loan on the date of bond maturity.	**Meaning**	A debenture is a debt instrument issued by private corporations to raise funds for a specific purpose. In return, the debenture holders are given the first preference to receive interest over stockholders. The purpose of debentures is to raise finances for the short-term or long-term.
An investor who receives the bond is called a bondholder.	**Holder**	Investors who receive debentures are called debenture holders.
Bonds are one of the secured investment options.	**Issuing entity**	Unlike bonds, debentures are high-risk instruments because they are not attached to any security.
Bonds are issued by private entities, financial companies, and government agencies.	**Risk**	Debentures are issued by private entities to meet specific needs in the business.
Bonds provide lesser interest rates as they are attached to collateral security, but the investor will receive interest on an accrual basis..	**Interest rate**	Debentures carry high-interest rates because they are not backed by any collateral. Plus, debenture holders are the first to be paid over others.
Bonds are secured with the company's physical assets. They act as collateral to the issuing debt instrument.	**Collateral**	Debentures are not backed by any physical assets or collateral, except the creditworthiness and stature of the issuer.
Bondholders receive interest monthly or annually.	**Payment**	The debenture holder receives periodic interests.
Bonds can be converted into a pre-agreed set of shares.	**Convertibility**	According to the issuer's offering, the debenture holder can convert the debt instrument into a prefixed number of shares after a set time mentioned in the document.
Bondholders are given the top priority at the time of liquidation or unforeseen situations in the company.	**Priority**	A debenture holder is the first one to be paid before equity shareholders
Investments in bonds are for the long term, so is their tenure.	**Tenure**	Investment in debentures is done for a specific purpose. So, their tenure can be short-term or long-term, depending on the task pursued by the company.

11. What are the different types of Mutual Funds explain them in brief?

A mutual fund is a professionally managed financial instrument that pools money from many investors to purchase securities such as stocks, bonds, money market instruments, etc. It offers more diversification and opportunity for investors to make smart investments without being actively engaged in the day to day investment activities.

Advantages:

- Built-in diversification
- Professional management
- Fulfils various investment objectives
- Liquidity
- Regulation under SEBI (Securities and Exchange Board of India

- Equity Funds: These funds primarily invest in stocks or equity securities. They can focus on different market capitalizations, such as large-cap, mid-cap, or small-cap stocks. Equity funds are suitable for investors looking for long-term capital appreciation but should be prepared for higher market volatility.

- Debt Funds: Debt funds invest in fixed-income securities like government bonds, corporate bonds, and money market instruments. They are generally considered less risky than equity funds and are ideal for investors seeking stable income and lower risk.

- Hybrid Funds: Also known as balanced funds, these combine both equity and debt investments in varying proportions. Hybrid funds offer diversification and aim to balance risk and return. They can be conservative, moderate, or aggressive, depending on their asset allocation.

- Money Market Funds: These funds invest in short-term, low-risk securities like Treasury bills and commercial paper. Money market funds provide high liquidity and stability of capital, making them suitable for investors with a short-term horizon.

- Index Funds: Index funds aim to replicate the performance of a specific market index, such as the S&P 500. They offer a passive investment approach and generally have lower expense ratios than actively managed funds.

- Exchange-Traded Funds (ETFs): While not traditional mutual funds, ETFs are similar and trade on stock exchanges like equities. They track an index or asset class and offer liquidity and flexibility.

- SIP (Systematic Investment Plan) Funds: These are not separate funds but a mode of investing. Investors can set up regular, automated investments in mutual funds, which can help in long-term wealth creation through disciplined investing.