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# AHSEC Class 12 Finance — Complete Important Questions & Answers (All 18 Chapters)

## Chapter 1: Organisation & Management of RBI

### 2 Marks

Q1. When was RBI established?
**Answer:** RBI was established on April 1, 1935.
Q2. Where is the headquarters of RBI?
**Answer:** Mumbai.

### 3 Marks

Q3. What is the Central Board of Directors?
**Answer:** The Central Board is the governing body of RBI that supervises its operations.
Q4. Who appoints the Governor of RBI?
**Answer:** The Central Government appoints the Governor.

### 4 Marks

Q5. Explain the composition of the RBI Central Board.
**Answer:** It consists of the Governor, four Deputy Governors, 15 nominated directors, one government official, and representatives from local boards.

### 5 Marks

Q6. Write a short note on the management structure of RBI.
**Answer:** The RBI is managed by the Central Board of Directors including the Governor, Deputy Governors, and appointed directors. There are local boards at Mumbai, Kolkata, Chennai, and New Delhi that advise the Central Board.

### 8 Marks

Q7. Discuss the organizational structure and departmental setup of the RBI.
**Answer:** The RBI's organizational structure includes:

- Central Board of Directors (policy and supervision)
- Local Boards (regional advisory roles)
- Departments such as Issue Department (currency issuance), Banking Department (banking regulation), Debt Management, Foreign Exchange, and Currency Management.
  This setup ensures smooth operations across banking and financial sectors.

## Chapter 2: Functions of RBI

### 2 Marks

Q1. Name any two functions of RBI.
**Answer:** Issuing currency and acting as banker to the government.

### 3 Marks

Q2. What is RBI’s function as a “Banker to Banks”?
**Answer:** RBI provides financial assistance and acts as lender of last resort to commercial banks.

Q3. What is the currency issuing function of RBI?
**Answer:** RBI has the sole right to issue currency notes in India except one-rupee coins.

## 4 Marks

Q4. Explain the role of RBI as the “Controller of Credit”.
**Answer:** RBI regulates the supply of money and credit to maintain economic stability using instruments like repo rate, CRR, and open market operations.

## 5 Marks

Q5. Describe the function of RBI as the “Custodian of Foreign Exchange Reserves”.
**Answer:** RBI manages foreign currency reserves, intervenes in the forex market to stabilize the rupee, and facilitates foreign trade.

## 8 Marks

Q6. Elaborate on the functions of RBI with examples.
**Answer:**

- **Monetary Authority:** Controls money supply and inflation.
- **Issuer of Currency:** Issues currency notes except one-rupee coins.
- **Banker to Government:** Manages government accounts and public debt.
- **Regulator of Banks:** Licenses and supervises banks.
- **Lender of Last Resort:** Provides emergency funds to banks.
- **Foreign Exchange Manager:** Maintains exchange rate stability.
  These functions maintain monetary stability and economic growth.

# Chapter 3: Credit Control Techniques of RBI

## 2 Marks

Q1. Define credit control.
**Answer:** Credit control refers to measures taken by RBI to regulate the availability and cost of credit in the economy.

## 3 Marks

Q2. Name two quantitative instruments of credit control.
**Answer:** Bank rate policy and Cash Reserve Ratio (CRR).

## 4 Marks

Q3. What is qualitative credit control?
**Answer:** Measures used by RBI to regulate credit flow to specific sectors, such as margin requirements and moral suasion.

## 5 Marks

Q4. Explain open market operations as a tool of credit control.
**Answer:** RBI buys or sells government securities in the open market to regulate money supply. Buying securities injects money; selling absorbs liquidity.

## 8 Marks

Q5. Discuss various quantitative and qualitative techniques of credit control used by RBI.
**Answer:**

- **Quantitative:** Bank rate policy (changing interest rates), CRR (minimum reserves banks must hold), SLR (statutory liquidity ratio), open market operations (buying/selling securities).
- **Qualitative:** Moral suasion (persuading banks), direct action (punitive measures), margin requirements (limits on credit against securities), selective credit control (restricting credit to specific sectors).
  These tools maintain economic stability by controlling inflation and liquidity.

# Chapter 4: Development Financial Institutions

## 2 Marks

Q1. What is a Development Financial Institution (DFI)?

**Answer:** DFIs provide long-term finance to industrial and infrastructure projects.

## 3 Marks

Q2. Name any two DFIs in India.

**Answer:** IFCI and SIDBI.

## 4 Marks

Q3. Mention any three functions of NABARD.

**Answer:** Providing refinance for agriculture, supporting rural development, promoting cooperative banks.

## 5 Marks

Q4. Write a note on the role of SIDCs.

**Answer:** State Industrial Development Corporations promote industrialization at the state level by providing financial and technical assistance.

## 8 Marks

Q5. Explain the objectives and functions of Development Financial Institutions.

**Answer:**

DFIs aim to fill the gap in long-term finance by supporting industries and infrastructure projects. Functions include providing project finance, advisory services, promoting entrepreneurship, refinancing banks, and aiding export promotion. Key institutions like IFCI, IDBI, SIDBI, and NABARD focus on specific sectors such as industry, small scale industries, and agriculture, contributing to balanced economic growth.

# Chapter 5: Indian Money Market

## 2 Marks

Q1. What is the money market?

**Answer:** The money market is a market for short-term funds (less than one year).

## 3 Marks

Q2. Name any two instruments of the money market.

**Answer:** Treasury bills and commercial paper.

## 4 Marks

Q3. What are the features of the Indian money market?

**Answer:** Segmented, informal, dominated by banks, and influenced by RBI.

## 5 Marks

Q4. Write a short note on treasury bills.

**Answer:** Treasury bills are short-term government securities issued to meet temporary cash needs.

## 8 Marks

Q5. Discuss the structure and features of the Indian money market.

**Answer:**

The Indian money market is composed of organized and unorganized sectors, including commercial banks, RBI, cooperative banks, and money lenders. It deals with short-term financial instruments like treasury bills, commercial paper, and call money. The market is segmented and lacks full integration, but it plays a vital role in meeting the liquidity needs of the economy.

# Chapter 6: Foreign Exchange Market

## 2 Marks

Q1. What is foreign exchange?
**Answer:** Foreign exchange is the currency of one country used in another.

## 3 Marks

Q2. Name two participants in the foreign exchange market.
**Answer:** Commercial banks and exporters/importers.

## 4 Marks

Q3. Define spot exchange rate.
**Answer:** The rate at which foreign currency is exchanged for immediate delivery.

## 5 Marks

Q4. What are the functions of the foreign exchange market?
**Answer:** Facilitates international trade, provides hedging, and determines exchange rates.

## 8 Marks

Q5. Explain the features and functions of the foreign exchange market.
**Answer:**
The foreign exchange market is a decentralized global market for currency trading. It determines exchange rates, facilitates international transactions, provides liquidity, and helps in risk management through forward contracts and hedging. Participants include central banks, commercial banks, corporations, and speculators.

# Chapter 7: Capital Market

## 2 Marks

Q1. What is capital market?
**Answer:** The market for long-term funds.

## 3 Marks

Q2. Name two primary market intermediaries.
**Answer:** Merchant bankers and underwriters.

## 4 Marks

Q3. Define primary market.
**Answer:** Market for new securities issued by companies.

## 5 Marks

Q4. Mention the functions of the capital market.
**Answer:** Mobilizes savings, provides investment opportunities, facilitates capital formation.

## 8 Marks

Q5. Explain the structure and functions of the capital market.
**Answer:**
The capital market consists of the primary market (new issues) and secondary market (trading existing securities). It mobilizes savings, provides liquidity, and aids economic growth. It includes intermediaries like merchant bankers, stock exchanges, and regulatory bodies ensuring transparency.

# Chapter 8: Stock Exchange (Secondary Market)

## 2 Marks

Q1. What is a stock exchange?
**Answer:** A place where existing securities are traded.

## 3 Marks

Q2. Name any two major stock exchanges in India.
**Answer:** Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

## 4 Marks

Q3. What is meant by 'listing' of securities?
**Answer:** Admission of securities to trade on the stock exchange.

## 5 Marks

Q4. Explain the functions of a stock exchange.
**Answer:** Provides liquidity, price discovery, safety of transactions, and marketability.

## 8 Marks

Q5. Discuss the role and importance of stock exchanges in the Indian economy.
**Answer:**
Stock exchanges provide a platform for buying and selling securities, helping companies raise capital and investors to trade. They ensure transparency, reduce risk, and aid price discovery, contributing significantly to economic development.

# Chapter 9: Modern Banking Services

## 2 Marks

Q1. What is e-banking?
**Answer:** Banking services provided electronically over the internet.

## 3 Marks

Q2. Name two electronic banking services.
**Answer:** Mobile banking and ATM services.

## 4 Marks

Q3. What are debit cards?
**Answer:** Cards that allow withdrawal directly from a bank account.

## 5 Marks

Q4. Explain the advantages of electronic banking.
**Answer:** Convenience, time-saving, 24/7 access, and reduced paperwork.

## 8 Marks

Q5. Discuss the various modern banking services and their impact on customers.
**Answer:**
Modern banking includes ATMs, debit/credit cards, internet banking, mobile banking, and electronic fund transfers. These services enhance convenience, reduce transaction time, and provide secure, round-the-clock access to banking facilities, improving customer satisfaction.

# Chapter 10: Leasing & Hire Purchase

## 2 Marks

Q1. Define leasing.

**Answer:** A contract where the lessee uses an asset owned by the lessor for a period in exchange for rent.

## 3 Marks

Q2. What is hire purchase?

**Answer:** Buying goods through installments, with ownership transferred after full payment.

## 4 Marks

Q3. Mention one advantage of leasing.

**Answer:** Avoids large capital outlay.

## 5 Marks

Q4. Explain the difference between leasing and hire purchase.

**Answer:** Leasing is a rental agreement without ownership transfer, while hire purchase leads to ownership after installments.

## 8 Marks

Q5. Discuss the advantages and disadvantages of leasing.

**Answer:**

Advantages: No need for large capital, flexibility, tax benefits.

Disadvantages: Higher overall cost, no ownership rights, long-term liability.

# Chapter 11: Mutual Funds

## 2 Marks

Q1. What is a mutual fund?

**Answer:** A collective investment scheme pooling money from investors.

## 3 Marks

Q2. Name two types of mutual funds.

**Answer:** Open-ended and close-ended funds.

## 4 Marks

Q3. List one benefit of investing in mutual funds.

**Answer:** Diversification of risk.

## 5 Marks

Q4. Explain the difference between open-ended and close-ended funds.

**Answer:** Open-ended funds allow investors to enter or exit anytime; close-ended have fixed maturity.

## 8 Marks

Q5. Discuss the features and benefits of mutual funds.

**Answer:**

Mutual funds pool resources, professionally manage funds, diversify risk, and provide liquidity and convenience to investors, making them a popular investment option.

# Chapter 12: Venture Capital & Factoring

## 2 Marks

Q1. Define venture capital.

**Answer:** Financing provided to startups with high growth potential.

## 3 Marks

Q2. What is factoring?

**Answer:** Selling receivables to a third party to get immediate cash.

### 4 Marks

Q3. Mention one benefit of factoring.
**Answer:** Improves cash flow.

### 5 Marks

Q4. Describe the features of venture capital.
**Answer:** High risk, long-term investment, mentoring, and active involvement.

### 8 Marks

Q5. Explain the importance of venture capital and factoring services.
**Answer:**
Venture capital supports innovation and entrepreneurship with funds and guidance, while factoring helps businesses manage receivables and liquidity, boosting business growth and financial stability.

## Chapter 13: Fee-Based Financial Services

### 2 Marks

Q1. What is stock broking?
**Answer:** Buying and selling securities on behalf of clients for a fee.

### 3 Marks

Q2. Define credit rating.
**Answer:** Assessment of creditworthiness of borrowers.

### 4 Marks

Q3. Mention one function of credit rating agencies.
**Answer:** Providing ratings to help investors assess risk.

### 5 Marks

Q4. Explain the role of stock brokers in the financial market.
**Answer:** Brokers act as intermediaries, facilitate trades, and provide market information.

### 8 Marks

Q5. Discuss the significance of fee-based financial services.
**Answer:**
These services generate fee income for financial institutions and provide specialized financial assistance like brokerage, credit assessment, and advisory, which support efficient capital markets.

## Chapter 14: Merchant Banking

### 2 Marks

Q1. What is merchant banking?
**Answer:** Providing financial and advisory services for corporate clients.

### 3 Marks

Q2. Name any two functions of merchant bankers.
**Answer:** Issue management and underwriting.

### 4 Marks

Q3. How is merchant banking different from commercial banking?
**Answer:** Merchant banking focuses on investment services; commercial banking handles deposits and loans.

### 5 Marks

Q4. Write a note on the functions of merchant bankers.
**Answer:** They assist in capital raising, underwriting, mergers, project counseling, and managing public issues.

### 8 Marks

Q5. Explain the role and importance of merchant banking in India.
**Answer:**
Merchant bankers play a crucial role in mobilizing capital, structuring financial deals, and advising companies on mergers and acquisitions, thereby facilitating the growth of the capital market.

## Chapter 15: Financial Management Fundamentals

### 2 Marks

Q1. What is financial management?
**Answer:** Planning and controlling financial resources of a firm.

### 3 Marks

Q2. State any two objectives of financial management.
**Answer:** Profit maximization and wealth maximization.

### 4 Marks

Q3. Define capital structure.
**Answer:** The mix of debt and equity in a firm's financing.

### 5 Marks

Q4. Discuss the importance of financial planning.
**Answer:** Ensures availability of funds, avoids liquidity crises, and supports growth.

### 8 Marks

Q5. Explain the objectives and functions of financial management.
**Answer:**
Objectives include ensuring adequate funds, maximizing shareholder wealth, and maintaining financial stability. Functions cover financial planning, investment decisions, financing decisions, and dividend decisions.

## Chapter 16: Financial Markets Overview

### 2 Marks

Q1. What are primary and secondary markets?
**Answer:** Primary market issues new securities; secondary market trades existing securities.

### 3 Marks

Q2. Name two features of the money market.
**Answer:** Short-term funds and high liquidity.

### 4 Marks

Q3. Explain the difference between capital market and money market.
**Answer:** Capital market deals with long-term funds; money market with short-term.

### 5 Marks

Q4. Discuss the importance of financial markets.
**Answer:** They facilitate capital formation, provide liquidity, and support economic development.

### 8 Marks

Q5. Explain the structure and functions of financial markets in India.

**Answer:**
Financial markets comprise money market (short-term instruments) and capital market (long-term securities). They mobilize savings, allocate resources efficiently, and provide liquidity to investors and borrowers.

# Chapter 17: Marketing Management (Finance)

## 2 Marks

Q1. What is product branding?
**Answer:** Creating a unique name and image for a product.

## 3 Marks

Q2. Define packaging.
**Answer:** Designing and producing a container for a product.

## 4 Marks

Q3. Name two functions of marketing management.
**Answer:** Market research and advertising.

## 5 Marks

Q4. Write a note on the importance of branding in finance.
**Answer:** Branding builds trust and recognition for financial products and services.

## 8 Marks

Q5. Discuss the role of marketing management in financial services.
**Answer:**
Marketing management helps in understanding customer needs, developing financial products, promoting them through advertising, and building brand loyalty, ultimately leading to increased sales and market share.

# Chapter 18: Consumer Protection in Finance

## 2 Marks

Q1. What is consumer protection?
**Answer:** Safeguarding consumers' rights against unfair practices.

## 3 Marks

Q2. Name one consumer right in financial services.
**Answer:** Right to information.

## 4 Marks

Q3. What is the role of the Consumer Protection Act?
**Answer:** Provides legal remedies for consumer grievances.

## 5 Marks

Q4. Explain the importance of consumer awareness in finance.
**Answer:** Helps consumers make informed decisions and avoid fraud.

## 8 Marks

Q5. Discuss the mechanisms for consumer protection in financial services.
**Answer:**
Mechanisms include regulatory bodies like SEBI and RBI, consumer courts, grievance redressal forums, and awareness programs. They ensure transparency, fairness, and accountability in financial services.