Short Answer Type Questions

1. What are the functions of a Financial Market?
Ans: Financial market plays an important role in the allocation of scarce resources in an economy by performing the following four important functions
(i) Mobilisation of Savings and Channelising Them into the Most Productive Uses:
A financial market facilitates the transfer of savings from savers to investors. It gives choice to the saver of different investments and thus, it helps to channelise surplus funds into the most productive use.
(ii) Facilitate Price Discovery:
In a financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.
(iii) Provide Liquidity to Financial Assets:
Financial markets facilitate easy purchase and sale of financial assets. Flolders of assets can readily sell their financial assets through the mechanism of financial market.
(iv) Reduce the Cost of Transactions:
Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to spend to try or otherwise find each other.

2. "Money Market is essentially a Market for short term funds." Discuss.
Ans: The money market is a market for short term funds which deals in monetary assets whose period of maturity is upto one year. These assets are close substitutes for money. It is a market where low risk, unsecured and short term debt instruments that are highly liquid are issued and actively traded everyday. It enables the raising of short term funds for earning returns. The major participants in the market are the Reserve Bank of India, Commercial Bank, Non-Banking Finance Companies, State Governments, Large Corporate Houses and Mutual Funds.

3. What is a Treasury Bill?
Ans: A treasury bill is an instrument of short term borrowing by the Government of India Maturing in less than one year. They are also known as Zero Coupon Bonds issued by the RBI on behalf of the Central Government to meet its short term requirement of funds. 'Treasury bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par treasury bills are available for a minimum amount of Rs. 25,000.

4. Distinguish between Capital Market and Money Market.
Ans: Difference between Capital and Money Market

Basis	Capital Market	Money Market
Duration	It deals in medium and long term securities.	It deals in short term securities.
Investment used	Equity shares, preference shares, bonds, debentures are the common instruments.	Commercial, paper, treasury bill, trade bill, certificate of deposit are the common instruments.
Safety	Capital market is risky.	Instruments here are highly secured.
Expected return	Higher returns on investment.	No or low risk involved leads to lesser returns.
Participants	Individual investors, financial institutions corporate houses etc.	RBI, Commercial Banks, financial institution mutual funds.

5. What are the functions of a Stock Exchange?
Ans: The efficient functioning of a stock exchange creates a conducive climate for an active and growing primary market following are the important functions of a stock exchange
(i) Providing Liquidity and Marketability to Existing Securities:
The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to the existing securities in the market.
(ii) Pricing of Securities:
Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.
(iii) Safety of Transactions:
The membership of a stock exchange is well-regulated and its dealings are well defined according to the existing legal framework which ensures that the investing public gets a safe and fair deal on the market.
(iv) Contributes to Economic Growth:
A stock exchange is a market in which existing securities are resold or traded. This process of disinvestment and reinvestment saving get channelised into productive investment avenues. This leads to capital formation and economic growth.
(v) Spreading of Equity Cult:
The stock exchange plays vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.
(vi) Providing Scope for Speculation:
The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner.

6. What are the objectives of the SEBI?
Ans: The overall objective of SEBI is to protect the interest of investors, promote the development and regulate the securities in market. This may be elaborated as follows
(i) To regulate stock exchanges and the securities industry to promote their orderly functioning.
(ii) To protect the rights and interests of investors, particularly individual investors to guide and educate them.
(iii) To prevent trading malpractices and achieve a balance between self-regulation by the securities and its statutory regulation.
(iv) To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc with a view to making them competitive and professional.

7. State the objectives of the NSE.
Ans: NSE was setup with the following objectives:
(i) Establishing a nationwide trading facility for all types of securities.
(ii) Through an appropriate communication network, ensuring equal

access to investors.
(iii) Through electronic trading system, provides a fair, efficient and transparents security market.
(iv) It enables shorter settlement cycles and book entry settlements.
(v) Meeting international benchmarks and standards.

8. What is the OTCEI?
Ans: The OTCEI is a company incorporated under the Companies Act, 1956. It was set up to provide small and medium companies an access to the capital market for raising finance in a cost effective manner. It is fully computerised, transparent, single window exchange which commenced trading in 1992. This exchange is established on the lines of NASDAG the OTC exchange in USA. If has been promoted by UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI capital markets and can bank financial services.
It is a negotiated market place that exists any where as opposed to the auction market place, represented by the activity on securities exchange. Thus, in the OTC exchange, trading takes place when a buyer or seller walks up to an OTCEI counter, taps on the computer screen, finds quotes and effects a purchase or sale depending on whether the prices meet their target.

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