



B. SHORT ANSWER TYPE QUESTION

1. What is the alternate name of stock used by different people?

Answer: The word “stock” is called by different names with different people like shares, equity, scrip and so on but all these words have same meaning.

C. LONG ANSWER TYPE QUESTIONS

1. Explain the importance of Stock Exchange from the companies point of view.

Answer: From the companies point of view:

1. Widespread market
2. High share value

2. Explain the importance of Stock Exchange from the viewpoint of investors.

Answer: From the investor’s point of view:

1. Dissemination of useful Information: It publishes useful information regarding price lists, quotations, etc., of securities through newspapers and journals.
2. Ready Market: It will be easy way platform for all those for buying and selling shares and convert it into cash through a member of stock exchange.
3. Investors’ Interests Protected: Stock exchanges formulate rules and regulations so that members may not exploit the investors.
4. Genuine guidance about the securities listed.
5. Barriers of distance removed.
6. Knowledge of profit or loss on investments and ensures a measure of safety and fair dealings to the investors.

3. Explain the importance of Stock Exchange from the viewpoint of society.

Answer: From the societies point of view:

1. Rapid Capital Formation
2. Economic Development
3. National Projects

4. Rahil (Finance) and Anushk (HR) are doing MBA (IIM Indore).

While reading the newspaper Anushk saw the heading Sensex goes up. But last week the heading was different that Sensex goes down now some confusion was going on her mind, immediately she asked her Friend Rahil the same? Now according to you how Rahil will clear the confusion of Anushk? Explain and give some value points.

Answer: Rahil explains him in this way: The Sensex is an “index”.

An index is basically an indicator. It gives you a general idea about whether most of the stocks have gone up or most of the stocks have gone down.

The Sensex is an indicator of all the major listed companies of the BSE.

The BSE, is the Bombay Stock Exchange and the NSE is the National Stock Exchange. The BSE is situated at Bombay and the NSE is situated at Delhi. These are the major stock exchanges in the

country.

If the Sensex goes up, it indicates that the prices of the stocks (shares) of most of the major companies on the BSE have gone up. If the Sensex goes down, this tells you that the stock price of most of the major stocks on the BSE have gone down.

In this way Rahil cleared the confusion of Anushk.

Value Points:

1. Quest for knowledge
2. Helpfulness
3. Consideration for others
4. Awareness of responsibility
5. Readiness to cooperate
6. Friendship.

D. VERY LONG ANSWER TYPE QUESTIONS

1. Write down the features of stock exchanges.

Answer:

1. Association of persons: A stock exchange is an association of persons or body of individuals which may be registered or unregistered.
2. Recognition from central government: Stock exchange is an organized market. It requires recognition from the Central Government.
3. Market for securities: Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.
4. Deals in second hand securities: It deals with shares, debentures, bonds and such securities already issued by the companies. In short, it deals with existing or second hand securities and hence it is called secondary market.
5. Regulates trade in securities: Stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilities to its members and brokers who trade in securities. It regulates the trade activities so as to ensure free and fair trade.
6. Allow dealings only in listed securities: In fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor. Securities which do not figure in the official list of stock exchange are called unlisted securities. Such unlisted securities cannot be traded in the stock exchange.
7. Transactions effected only through members: All the transactions in securities at the stock exchange are effected only through its authorized brokers and members. Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange. Investors have to buy or sell the securities at the stock exchange through the authorized brokers only.
8. Working as per rules: Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as SEBI Guidelines. No deviation from the rules and guidelines is allowed in any case.
9. Specific location: Stock exchange is a particular market place where authorized brokers come together daily (i.e. on working days) on the floor of market called trading circles and conduct trading activities. The price of different securities traded are shown on electronic boards. After the working hours market is closed. All the working of stock exchange is conducted and controlled through computers and electronic system.
10. Financial barometers: Stock exchanges are the financial barometers and development indicators of national economy of the country. Industrial growth and stability is reflected in the

index of stock exchange.

2. Explain the functions of stock exchange.

Answer: Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. Its important functions are:

1. Continuous and ready market for securities:

- Stock exchange provides a central market for purchase and sale of securities.
- It provides ready and continuous outlet for buying and selling of securities.
- It facilitates and helps all buyers to buy and sell securities as and when they want.

2. Facilitates evaluation of securities:

- It is useful for the correct evaluation of industrial securities.
- It publishes price quotation of the shares of the companies that have been listed with them after thorough analysis of demand and supply position.
- This enables investors to know the true worth of their holdings at any time.

3. Checks on brokers:

- It checks and controls the activities of brokers and protect the investors from being deceived.
- While dealing, if any broker is found indulging in malpractices as overcharging or giving wrong information, his/her licence may be cancelled.

4. Provides safety and security in dealings:

- All activities of the stock exchange are controlled by the provisions of the Securities Control (Regulation) Act and this creates confidence in the mind of investors.
- Each and every dealings and transactions are conducted as per well defined rules and regulations, fraudulent practices stands checked effectively ensuring safety, security and justice in dealings.
- Regulates company management: All listed companies in the stock exchange, compulsorily have to follow with rules and regulations of concerned stock exchange and work under the vigilance of their authorities.

E. HIGHER ORDER THINKING SKILLS

1. Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. Explain the important functions of stock exchanges.

Answer:

1. Continuous and ready market for securities: Stock exchange provides a central market for purchase and sale of securities. It provides ready and continuous outlet for buying and selling of securities. Buyers and sellers strongly believe that they would be able to buy and sell securities as and when they want.
2. Facilitates evaluation of securities: Stock exchange is useful for the evaluation of industrial securities. It publishes price quotation of the shares of the companies that have been listed with them after thorough analysis of demand and supply position. This enables investors to know the true worth of their holdings at any time.
3. Checks on brokers: Stock exchanges control the activities of brokers and protect the investors from being deceived. Now, if

- any broker is found indulging in malpractices as overcharging or giving wrong information, his/her licence may be cancelled.
4. Provides safety and security in dealings: Activities of the stock exchange are controlled by the provisions of the Securities Control (Regulation) Act and all this creates confidence in the minds of investors. As transactions are conducted as per well defined rules and regulations, fraudulent practices stands checked effectively ensuring safety, security and justice in dealings.
 5. Regulates company management: Listed companies have to comply with rules and regulations of concerned stock exchange and work under the vigilance of stock exchange authorities.
 6. Intensifying capital formation: Stock exchange accelerates the process of capital formation through creating the habit of saving, investing and risk taking among the investing class by converting their savings into profitable, safe investments.
 7. Facilitates raising of new capital: Because of stock exchange, for either development, organisation or expansion, the need for more capital by the existing companies is easily met out.
 8. Facilitates public borrowing: Stock exchange serves as a platform for marketing government securities. It enables government to raise public debt easily and quickly.
 9. Facilitates healthy speculation: Healthy speculation keeps the exchange active. Normal speculation is not dangerous but provides more business to the exchange. However, excessive speculation is undesirable as it is dangerous to investors and the growth of corporate sector.
 10. Serves as economic barometer: Stock exchange indicates the state of health of companies and the national economy. It acts as a barometer of the economic situation/conditions and is thus referred to as 'pulse of economy' or 'economic mirror'.
 11. Facilitates bank lending: Banks easily know the prices of quoted securities. They offer loans to customers against corporate securities. This gives convenience to the owners of securities.

SECTION-D: SEBI AND OTHERS

A. VERY SHORT ANSWER TYPE QUESTIONS

1. What do you mean by stock exchange?

Answer: A stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities,

2. What is SEBI?

Answer: The Securities and Exchange Board of India or SEBI is the regulator for the securities market in India. It was established on 12 April, 1992 through the SEBI Act, 1992.

3. State three functions of SEBI rolled into one body.

Answer: SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive.

4. "Humorously, they were once given the acronym FFF for Angel Investors". What does FFF stand for?

Answer: Friends, Family and Fools.

5. What do you understand by angel investors?

Answer: Business angel or informal investor or an angel investor, is an individual who provides capital for a business start-up and early stage companies in exchange for convertible debt or ownership equity.

B. SHORT ANSWER TYPE QUESTIONS

1. What is SEBI and what is its role?

Answer: The Securities and Exchange Board of India or SEBI is the regulator for the securities market in India.

Role of SEBI:

1. It is a supervising and regulatory body to check certain malpractices and works for promoting the securities markets in India.
2. It has three functions rolled into one body: quasi-legislative, quasi-judicial and quasiexecutive.
3. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders.

2. Who manages SEBI?

Answer: SEBI is managed by its members, which consists of following:

1. Chairman who is nominated by Union Government of India.
2. Two members, i.e. Officers from Union Finance Ministry.
3. One member from Reserve Bank of India.
4. The remaining 5 members are nominated by Union Government of India, out of them at least 3 shall be whole-time members.

3. Explain briefly the three functions of SEBI rolled into one body.

Answer: SEBI has quasi-legislative capacity as it makes rules and regulations. It has rule-making authority related to the matters of securities in India.

SEBI is a quasi-judicial body as it has an entity such as an arbitrator or tribunal board, and has powers and procedures resembling those of a court. SEBI is quasi-executive as it functions like an executive but that is not really an executive.

4. What do you understand by venture capital?

Answer:

1. Venture capital is a type of private equity capital provided as seed funding to early-stage.
2. The investors provide funds to give shape to their ideas.
3. It aims at avoiding death of an enterprise even before they could be tried.
4. This investment enables the investors to accomplish objectives, in return for minority shareholding in the business or the irrevocable right to acquire.
5. It is more accurate to view venture capital broadly as a professionally managed pool of equity capital.
6. It is a way by which investors support entrepreneurial talent with finance and business skills for obtaining long-term capital gains.

5. Enlist several categories of financing possibilities in which smaller ventures sometimes rely on.

Answer: Following are several categories of financing possibilities in which smaller ventures sometimes rely on:

1. Venture capital
2. Seed Capital Finance
3. Start up finance
4. Loan from various financial institutions like, IDBI, SIDBI, IFCI, ICICI, NABARD, IIBI, SFCs, TFCI, AND SIDC.

6. Why are venture capitalists typically very selective in deciding while doing the investment?

Answer:

1. Venture capital involves high risk as its is done for entrepreneurs who lack the necessary experience and funds

to give shape to their ideas.

2. The proposal of a new venture involves new or untried technology put forward by professionally or technically qualified persons involving high risk factors. This may fail to attract investments from public, which may result in their death even before they could be tried.
3. Also the investments of venture capitalists are illiquid and require the time period to give returns. Venture capitalists thus have to carry out detailed due diligence prior to investment.

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