V. VALUE BASED QUESTIONS

Question 1. An entrepreneur can raise the required capital in the primary market. Explain the various methods of raising the funds in the primary market by an entrepreneur. Give some value points for this method of raising funds.

Answer: Yes, an entrepreneur can raise the required capital in the primary market. An entrepreneur can raise the required capital in the primary market by the following methods:

1. Public Issue
2. Rights Issue
3. Private Placement
4. Offer to the employees

(i) Public Issue/Going Public: Public issue is the most popular method of raising capital these days by the entrepreneurs. This involves raising of funds directly from the public through the issue of prospectus. An entrepreneur organising itself as public limited company can raise the required funds commonly by adopting prospectus.

(ii) Right Issues: It is an offer of new securities by a listed company to its existing shareholders only. The right issues are done always on the pro-rata basis (giving them a right to a certain number of shares in proportion to the shares they are holding).

(a) The companies send the letter of offer (circular) to all those existing shareholders whose names are recorded in the books on a particular date to issue rights.

(b) The time given to accept the right offer should not be less than 15 days.

(c) The circular/notice issued to the shareholder must state the right of the shareholder to renounce the offer in favour of others.

(d) After the expiry of the time mentioned in the notice, the Board of directors has the right to dispose the unsubscribed shares in any manner as per the benefit of the company.

The existing shareholders whose names are there in the list has four options:

- They can exercise the rights.
- They can renounce the rights and sell them in the open market in favour of another person.
- They can renounce part of the rights and exercise the other part.
- Doing nothing.

This method of issuing securities is considered to be inexpensive as it does not require any brokers, agents, underwriters, prospectus or enlistment, etc.

(iii) Private Placements: It refers to the direct sale of newly issued securities by the company to a small number of institutional investors through merchant bankers. They are generally selected clients.

(a) Unit Trust of India

(b) Life Insurance Corporation of India

(c) General Insurance Corporation of India

(d) Army Group Insurance

(e) State Level Financial Corporations

Advantages:
(a) Less time taken to issue these shares.
(b) Comparatively less amount of cost of capital is required.
(c) These issues are tailor-made to suite the requirement of both the parties.
(d) Less formalities are required.
(iv) Offer to Employees: Stock options to the employees refers to the offer given by the company to the employees to become shareholders. This method facilitates the employees to become shareholder and can earn a part of the share of profits.
Value Points:

- Proper utilization of time.
- Understanding each other and making the issues tailor-made so that the it can suite the requirements of both the parties.
- To prevent the use of paper and save precious natural resources.
- Choice to exercise the rights.
- Truthfulness.
- Disciplined as the issues are for the existing shareholders and issues can be till prescribed date only.
- Stock options to the employees shows the company's respect to the employees.
- Raising of funds through existing shareholder shows the awareness of responsibility of employees towards company and showing helpfulness.
- Help to protect company's property.
- Team spirit and team work to ensure the growth of the company.
- Ownership quality by the shareholders.
- Initiative by Board of Directors and the existing shareholders to protect the company.

Question 2. Explain the functions of stock exchange. Give some value points to it.
Answer: Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. It's important functions are:

1. Continuous and ready market for securities:
   (a) Stock exchange provides a central market for purchase and sale of securities.
   (b) It provides ready and continuous outlet for buying and selling of securities.
   (c) It facilitates and helps all buyers to buy and sell securities as and when they want.
2. Facilitates evaluation of securities:
   (a) It is useful for the correct evaluation of industrial securities.
   (b) It publishes price quotation of the shares of the companies that have been listed with them after thorough analysis of demand and supply position.
   (c) This enables investors to know the true worth of their holdings at any time.
3. Checks on brokers:
   (a) It checks and controls the activities of brokers and protect the investors from being received,
   (a) 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:
   (a) All 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.
   (b) 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.

5. Regulates company management:
   (a) The companies which are listed also have to operate within the strict rules and regulations.
   (b) This ensures safety of dealing through stock exchange.
   (c) All of them have to work under the vigilance of stock exchange authorities.
6. Intensifying capital formation and promoting the habit of saving and investment:
   (a) The stock market offers attractive opportunities of investment in various securities.
   (b) It encourages people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc.
   (c) It also creates a habit of risk taking among the investing class by converting their savings into profitable and help them for safe investments.
7. Facilitates raising of new capital: It facilitates an entrepreneur of existing companies for the need for more capital for further development, organisation or expansion and help them to meet the need.
8. Facilitates public borrowing: It serves as a platform for marketing government securities. It enables government to raise public debt easily and quickly.
9. Facilitates healthy speculation:To ensure liquidity and demand of supply of securities, the stock exchange permits healthy speculation of securities and always keeps the exchange active.
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 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.

Value Points:

1. Helpfulness: The stock market helps to value the securities on the basis of demand and supply factors.
2. Quest for knowledge: The valuation of securities is useful for investors, government and creditors.
   (a) The investors know the value of their investment.
   (b) The creditors know the value of credit worthiness.
   (c) Government knows to impose taxes on value of securities.
3. Truthfulness and equality—Only listed companies can operate in stock exchange.
4. To protect national property and economic growth: In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth.
5. Readiness to cooperate and ensures safety of dealing through stock exchange.
6. Encourage and promotes the habit of savings and honest investment: It offers attractive opportunities of investment in various securities. It encourages people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc.
7. Better transparency, genuine settlement cycle, honest transaction, etc.

Question 3. Explain the necessity of a stock exchange in the economy.
Answer: Stock exchange indicates about the good or bad health of

an economy.
For the smooth and orderly functioning of corporate sector in a free market economy, stock exchanges are indispensable, because of the different roles played by them for different groups.

1. Stock exchange indicates about the good or bad health of an economy. It is an investment intermediary which facilitates economic and industrial development of a country.
2. All the stock markets influence economic activities through the creation of liquidity.
3. It increases the business and earnings of people and gives a positive impact to the growth of an economy.
4. Stock exchanges formulate rules and regulations and build a trust between the members and investors so that members may net exploit the investors, with this belief more number of investors are added into it, which is really helpful for the economic growth.
5. Through easy funds mobilizing, the boosted production fetches more capital, enhancing economic development.
6. It operates through the medium of stock exchanges which regulates the trading activities in this market and ensures a measure of safety and fair dealings to the investors.
7. Stock exchanges play a key role in allocating capital to the corporate sector, which has significant effects on the economy as a whole.
8. Stock exchanges maintain an official list of securities that could be purchased and sold on its floor. In entrepreneurial-oriented countries, the growth of listed companies contributes a wide portion of a nation's increase in GDP.
9. 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.

Question 4. " Stock market contributes to better allocation of capital and intensities capital formation." Do you agree? Explain.
Answer: Yes, I agree with the statement. Stock market contributes to better allocation of capital and intensifies capital formation. The shares of profit making companies are quoted at higher prices and are actively traded so such companies can easily raise fresh capital from stock market. The general public hesitates to invest in securities of loss making companies. So stock exchange facilitates allocation of investor's fund to profitable channels. Stock exchange intensifies 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.

Question 5. " Stock exchange imparts liquidity to investment." Comment.
Answer: Stock exchanges enhance the marketability of securities and thereby provides liquidity to investments.

1. From the investor's point of view, this market imparts liquidity to the long-term securities held by them providing an auction market for these securities.
2. Generally, in the stock market securities are held for long term and get matured after a long time period. But stock market facilitates to sold the securities easily and at any time the security holders want and convert it into cash.
3. It operates through the medium of stock exchanges which regulates the trading activities in this market and ensures a measure of safety and fair dealings to the investors.

Question 6. Explain the importance of a stock exchange from the view point of entrepreneurs/companies.

Answer: The importance of a stock exchange from the view point of entrepreneurs /companies:

1. Recognition: The market values of companies' shares are published in important dailies. This enhances the reputation of good companies/ entrepreneurs.
2. Wide market: The securities of some companies are listed in some stock exchanges. The market for the securities of such companies is considerably widened. Thus, larger amounts of capital may be raised from different types of investors.
3. Higher share values: People have a tendency to buy shares that have some premium value. Demand of such shares increases. This leads to further increase in the price of such shares.

Value Points:

- Enhances the reputation of good companies
- Universal
- Social services
- National awareness
- Readiness to cooperate
- Helpfulness
- Consideration for others
- Friendship

Question 7. Explain the importance of a stock exchange from the viewpoint of society.
Answer: The importance of a stock exchange from the viewpoint of society:

1. Rapid capital formation:
(a) Many people save their money and are ready to invest where they can get high rate of returns, when they check with the good companies with high premium amount they tempted to invest in securities.
(b) This habit leads to investment of savings in corporate and government securities.
(c) The high returns of dividend from these securities may further be invested in buying more securities.
(d) This flow of funds leads to rapid and continuous capital formation.
2. Economic development:
(a) It is the market in which existing securities are purchased and sold.
(b) This process is called as disinvestment and reinvestment.
(c) Through easy funds mobilisation, this leads to more capital, enhancing economic development of the country.
3. National projects: As stock exchange promotes, the capital formation by rating and approving the projects which brings national prosperity can be easily undertaken.

Value Points:

1. National prosperity.
2. This habit leads to investment of savings in corporate and government securities.
3. Easy funds mobilizing.
4. Enhancing economic development.
5. Promoting the people to come with the projects.
6. Helping and providing the people a platform to buy and sell the securities.
7. Readiness to cooperate.

Question 8. Explain the importance of a stock exchange from the viewpoint of investors.
Answer: From the viewpoint of investors

1. Dissemination of useful information:
   (a) Stock exchange publishes useful information regarding price lists, quotations, etc., of securities through newspapers and journals.
   (b) All the shareholders who wish to buy and sell their securities accordingly use the provided information.
2. Ready market: It gives a ready market for the security holders, so that all those who wish and are in need of money can easily convert their shares into cash online or through intermediaries. -
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: The investors can safely depend upon the information provided by the stock exchanges.
5. Barriers of distance removed:
   (a) Stock exchange removes the barriers of distance with regard to securities listed there.
   (b) Without listing the shares in stock exchange the securities can be sold out in a limited market only.
6. Knowledge of profit or loss on investments: The investors can estimate the profit or loss on the total amount of investments in securities, by comparing the original amount invested and the price of securities on a particular day.

Value points:

1. Sharing the information
2. Helpfulness
3. Quest for knowledge
4. Discipline in following rules and regulations
5. Resourcefulness
6. Equality for all regarding the brokerage
7. Team spirit
8. Universal
9. Shareholders shows the spirit of enquiry.

VI. HIGHER ORDER THINKING SKILLS
Question 1. Identify the logo given below. Write the full form of it and when it was established.

Logo	Specialised Financial Institution	Full form and establishment year
	?	?
	?	?
	?	?
	?	?
	?	?
	?	?
	?	?

Answer:

Logo	Specialised Financial Institution	Full form and establishment year
	ICICI Bank	Investment Credit and Investment Corporation of India (ICICI) – established in 1955
	IIBI	Industrial Investment Bank of India (IIBI) – established in 1971
	NABARD	National Bank for Agriculture and Rural Development (NABARD) – established in 1982
	IFCI	Industrial Finance Corporation of India (IFCI) – established in 1948
	SIDBI	Small Industries Development Bank of India (SIDBI) – established in 1990
	IDBI BANK	Industrial Devėlopment Bank of India (IDBI) – established in 1964
	Tourism Finance Corporation of India Ltd.	Tourism Finance Corporation of India (TFCI) – established in 1989

Question 2. Explain the concept of IFCI.
Answer.

Logo	Details
IFCI	Industrial Finance Corporation of India IFCI LIMITED आई एफ सी आई लिमिटेड

Establishment/Set-up	IFCI was established as a statutory corporation on 1st July, 1948 by a special Act passed in the Parliament, IFCI Act, 1948. It was converted into a public limited company on July 1, 1993
Purpose	Its main purpose is to provide medium and long term credit to eligible industrial enterprises in corporate sectors of the economy, particularly to those industries to which banking facilities are not available.
Objectives	**Objectives:** The primary role of IFCI is to provide 'direct financial assistance' on medium and long term basis to industrial projects in the corporate and co-operative sectors. The objectives of the corporation are stated below: (*a*) To provide long and medium-term credit to industrial concerns engaged in manufacturing, mining, shipping and electricity generation and distribution; (*b*) The period of credit can be as long as 25 years and should not exceed that period; (*c*) To grant credit to a single concern up to a maximum amount of rupees one crore. This limit can be exceeded with the permission of the government under certain circumstances; (*d*) Guarantee loans and deferred payments; (*e*) Underwrite and directly subscribe to shares and debentures issued by companies; (*f*) Assist in setting up new projects as well as modernization of existing industrial concerns in medium and large scale sector; (*g*) Assist project under co-operatives and in backward areas.
Functions	**The main functions of I.F.C.I. are as under:** (*i*) Granting loans and advances for the establishment, expansion, diversification and modernization of industries in corporate and co-operative sectors. (*ii*) Guaranteeing loans raised by industrial concerns in the capital market, both in rupees and foreign currencies. (*iii*) Subscribing or underwriting the issue of shares and debentures by industries. Such investment can be held up to 7 years. (*iv*) Guaranteeing credit purchase of capital goods, imported as well as purchased within the country. (*v*) Providing assistance, under the soft loans scheme, to selected industries such as cement, cotton textiles, jute, engineering goods, etc. (*vi*) Providing technical, legal, marketing and administrative assistance to any industrial concern for the promotion, management and expansion of the industrial concern.

VII. EVALUATION AND MULTI¬DISCIPLINARY QUESTIONS
Question 1. Harsh has come up with a innovative idea of school bags. He believes that this can bring a new way of thought in the minds of consumers with respect to school bags. He want to start

the production of bags by setting up SSI in the industrial area. He should contact which financial institute for assistance in opening his innovative venture. Write the features of this financial institution.
Answer: Harsh should contact SIDBI for financial assistance in opening his innovative venture. Features of SIDBI are:

1. The financial assistance of SIDBI to the small scale sector is channelised through the following two routes:
   (a) Indirect Assistance
   (b) Direct Assistance
2. It stimulate and promote the participation of private capital (Indian) in such industrial units;
3. SIDBI has taken over there sponsibility of administering following two funds which were previously administered by IDBI i.e.
   (a) Small Industries Development Fund
   (b) Small Industries Development Assistance Fund.
4. SIDBI's financial assistance to SSS is primarily channelised through the existing credit delivery system consisting of commercial banks, co-operative banks, RRBs and SFCs.
5. Refinance loans and advances extended by the primary lending institutions to small scale industrial units, along with providing them even resource support.
6. Discounts and rediscounts bills arising from sale of machinery to or its manufacture by industrial units in the small-scale sector.

Question 2. Amar is running a village industry of processing of fruits. He took loan from State Bank of India. Even after this loan he is not able to meet his financial requirements. He is now looking for someone who can re-finance his industry of rural area. He should contact which financial institution for this purpose? Identify and explain any three functions of this financial institution.
Answer: He should contact NABARD for this purpose.
Functions of NABARD are:

1. NABARD is empowered to undertake inspection of RRBs and Cooperative Banks, other than the Primary Cooperative Banks.
2. To open a new branch, a recommendation of NABARD is imperative by RRBs or Cooperative Banks to seek permission from RBI.
3. RRBs and Cooperative Banks, along with RBI, are required to file returns and documents with NABARD.

Question 3. Omar is successfully producing a spareparts of machines in his enterprise. Omar Industrial Spares Ltd. He is in need of a machine costing Rs 14 lakhs and is to be imported from Swedan. Suggest him a financial institution who can provide loan assistance for 10 years. Write the functions of this financial institution.
Answer: The State Financial Corporation (SFC) can provide him a lon for 10 years. Functions of SFC:

1. Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years.
2. Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.
3. Underwriting of the issue of stock, bonds or debentures by industrial concerns.
4. Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 per cent of the subscribed capital, or 30 per cent of paid up share capital and free reserve, whichever is less.
5. Act as agent of the Capital government, State government,

IDBI, IFCI or any other financial institution in the matter of grant of loan or business of IDBI, IFCI or financial institution.

Question 4. Success of franchises such as McDonald's, Burger King, KFC, Boston Market, Subway, Midas, Jiffy Lube, Holiday Inn, Mail Boxes and Merry Maids is that, all these firms have established an excellent franchise system that effectively provides the necessary services to the franchisee. With respect to the above, describe the advantages of Franchising to the franchisee.
Answer:
Advantages of Franchising:

1. Proven idea: Business is based on a proven idea. Success of the product can be checked in the market.
2. Profit from brand recognition: Franchises develop an image in the marketplace. This saves both time and money of advertising, promotion, recognition, etc. Image of the product is a favourable one and is in the minds of consumers.
3. Recognized brand name and trademarks: Entrepreneur gets a recognized brand name and trademarks. Benefit from any advertising or promotion by the parent company automatically benefits the franchise.
4. Support from parent company: The franchisor gives support in the form of training, help setting up the business, a manual telling how to run the business and ongoing advice.
5. Exclusive rights of the territory: The franchisor can't sell any other franchises in the same territory which leads to the creation of monopoly power in the territory.
6. Easier Financing: Financing the business becomes easier due to the associated brand name. Banks are more likely to lend money to buy a franchise with a good reputation.

*********** END **********