



SECTION-B: FINANCIAL MARKETS

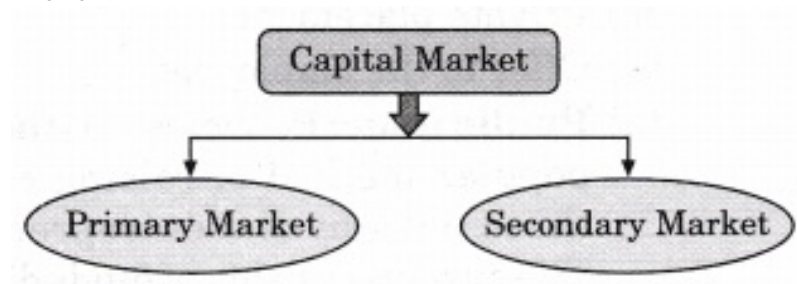
A. VERY SHORT ANSWER TYPE QUESTIONS

1. Define capital market.

Answer: A capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneurs.

2. Name the two players in the capital market.

Answer:



3. Identify the reward IPO investors seek as an appreciation of their investment.

Answer: The only reward the IPO investors seek is an appreciation of their investment and possibly dividends.

4. Identify the method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis.

Answer: Rights issue is a method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis.

5. What do you understand by pro-rata allotment of securities?

Answer: It is used to describe a proportionate allocation. It is a method of assigning shareholders a right to a certain number of shares in proportion to the shares they are holding.

6. What is Right Issue?

Answer: Rights issue is a method of raising additional finance from existing shareholders by offering securities to them on pro-rata basis i.e. giving them a right to a certain number of shares in proportion to the shares they are holding.

7. When the right issue are proposed to the existing shareholders and if they are not ready to subscribe what is the next step taken by an entrepreneur?

Answer: When rights issues are proposed to the existing shareholders and in case they are not willing to subscribe, they can renounce the same in favour of another person.

8. Why right issue method of issuing securities is considered to be inexpensive?

Answer: The right issuing securities is considered to be inexpensive as no intermediaries are required like any brokers, agents, underwriters, prospectus or enlistment, etc.

9. What do you understand by private placement?

Answer: Private placement means the direct sale by a company of

its securities to a limited number of sophisticated investors.

10. What is meant by stock options or offering shares to the employees?

Answer: A stock option is granted to specified employees of a company. ESOs carry the right, but not the obligation, to buy a certain amount of shares in the company at a predetermined price.

11. Name the method which enables employees to become shareholders and share the profits of the company.

Answer: Stock options or offering shares to the employees is the method that enables employees to become shareholders and share the profits of the company.

12. What is a secondary market?

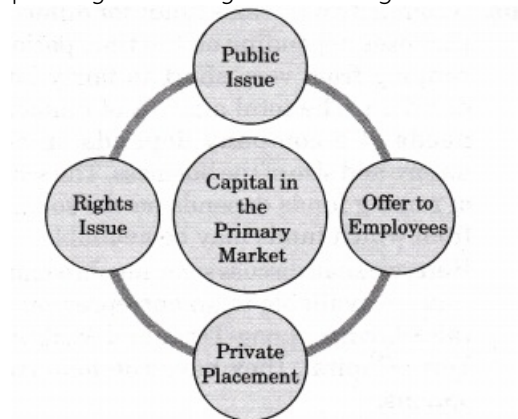
Answer: It refers to the market for the purchase and sale of existing securities i.e. the securities issued earlier are sold by existing investors in this market.

13. What is the need of secondary market?

Answer: The secondary capital market, which is also known as old securities market or stock exchange deals with buying and selling of old securities i.e. the securities issued earlier are sold by existing investors in this market, thus paving way for the entrepreneurs that if they offer high returns to market, investors will remain inclined to invest therein. The secondary market enhances the marketability of securities and thereby provides liquidity to investments.

14. In what forms can a company raise capital through primary market?

Answer: An entrepreneur can raise the required capital in the primary market by the following methods:



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