D. VERY LONG ANSWER TYPE QUESTIONS

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.

Answer: Yes, an entrepreneur can raise the required capital in the primary market. The various methods of raising the funds in the primary market by an entrepreneur are as follows :

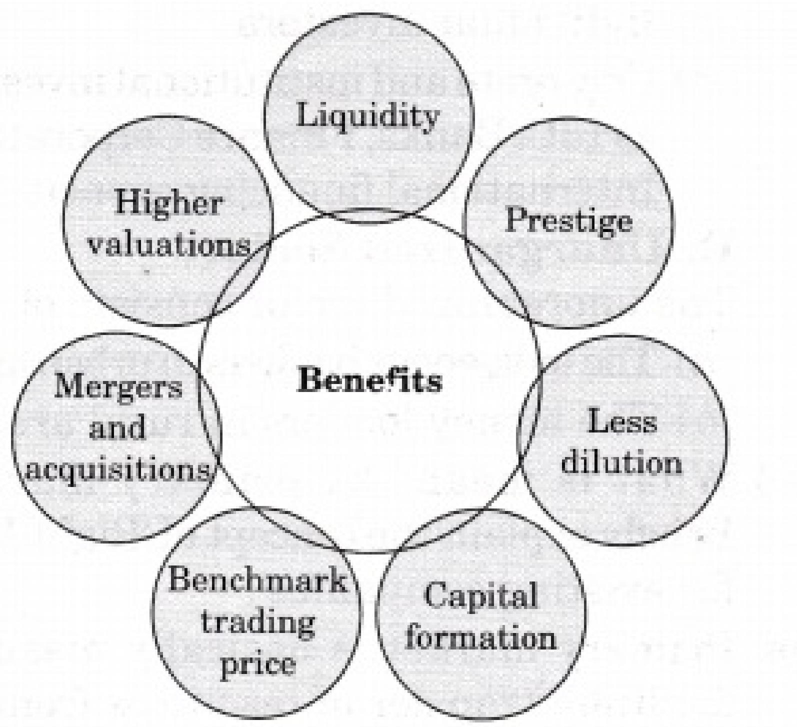
1. Public Issue
2. Rights Issue
3. Private Placement
4. Offer to the employees
5. Public Issue/Going Public: Public issue is the most popular method of raising capital these days by the entrepreneurs. This involves raising of funds directly from the public through the issue of prospectus. An entrepreneur organizing itself as public limited company can raise the required funds commonly by adopting prospectus.
6. 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.)
    - 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.
    - The time given to accept the right offer should not be less than 15 days.
    - The circular/notice issued to the shareholder must state the right of the shareholder to renounce the offer in favour of others.
    - 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:
    1. They can exercise the rights.
    2. They can renounce the rights and sell them the same in the open market in favour of another person.
    3. They can renounce part of the rights and exercise the other part.
    4. 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.
7. Private Placement: 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.
    - Unit Trust of India
    - Life Insurance Corporation of India
    - General Insurance Corporation of India
    - Army Group Insurance
    - State Level Financial Corporations

Advantages:

- Less time taken to issue these shares.
- Comparatively less amount of cost of capital is req*fired.
- These issues are tailor-made to suit the requirement of both the parties.
- Less formalities are required.

8. 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.

2. When an entrepreneur decides to go public and become a public company, he/ she tends to be in advantageous position and get many benefits out of it. Explain the benefits.
Answer:



Benefits	Explanation
Mergers and acquisitions	Public stock of a company can be used for businesses to grow through acquisitions.
Higher valuations	Public companies are typically valued more than private companies.
Benchmark trading price	The trading price of a public company's stock serves as a benchmark of the offer price of other securities.
Capital formation	Raising capital is typically easier because of the extra liquidity for the investors.
Incentives	Stock options and stock incentives can be very helpful in attracting employees.
Reduced business requirements	While an underwritten initial public offering requires significant earnings, the lack of earnings does not keep a private company from going public.
Less dilution	There is less dilution of ownership control compared to an IPO.
Liquidity	A public company provides liquidity for management, mi shareholders, and investors.
Prestige	Added prestige and visibility with customers, suppliers, as well as the financial community.

3. While there are benefits to going public, at the same time additional obligations and reporting requirements on the companies and its directors means disadvantages too. What are they? Explain.

Answer: While there are benefits to going public, it also means additional obligations and reporting requirements such as:

1. Increasing accountability to public shareholders
2. Need to maintain dividend and profit growth trends
3. Becoming more vulnerable to an unwelcome takeover
4. Need to observe and adhere strictly to the rules and regulations by governing bodies
5. Increasing costs in complying with higher level of reporting requirements
6. Relinquishing some control of the company following the public offering
7. Suffering a loss of privacy as a result of media interest.
   Discussions with lawyers, independent accountants and other professional advisors will also provide better considerations.
   Overall, going public is a complex decision that requires careful consideration and planning.
   Entrepreneurs should examine their current and future capital needs, and be aware of how an IPO will affect the availability of future financing.

E. HIGHER ORDER THINKING SKILLS
1. Why primary market is also known as new issue market? Give one reason.
Answer: When an entrepreneur decides to issues securities like shares, debentures to the public for the first time for the purpose of obtaining capital funds such issues of securities are even referred as "new money issues". Primary market is known as new issue market.

SECTION-C: STOCK EXCHANGE
A. VERY SHORT ANSWER TYPE QUESTIONS
1. What are the responsibilities of governing body?
Answer: The governing body is responsible for policy formulation and proper functioning of the exchange, having wide range of powers:

1. Elect the office bearers and set up committees
2. Interpret rules, regulations and by-laws
3. Admit and expel members
4. Adjudicate disputes
5. Manage the properties and finance of the exchange
6. Conduct the affairs of the exchange.

2. Name the stock exchanges where most of the stock trading in India is done.
Answer: Most of the stock trading in India is done on NSE and 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.

3. What is a secondary capital market?
Answer: Any transaction in shares or debentures subsequent to its primary offering is called "Secondary Transaction". Thus, 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 market securities issued earlier are sold by existing investors in this market.

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