B. SHORT ANSWER TYPE QUESTIONS
1. Which sources provide the supply for long-term funds?
Answer: Capital market consists of lenders and borrowers:
Lenders supply the funds.
Investors demand the funds.
The supply of long-term funds comes from following sources:

1. Household savings
2. Foreign capital
3. Institutional investors
4. Corporate savings
5. The government

2. Name the sources of demand for capital comes from.
Answer: Capital market consists of lenders and borrowers:

1. Lenders supply the funds
2. Investors demand the funds The demand for capital comes from:

1. Industrial Sector - It comes from the private sector into manufacturing or other economic activities.
2. Government

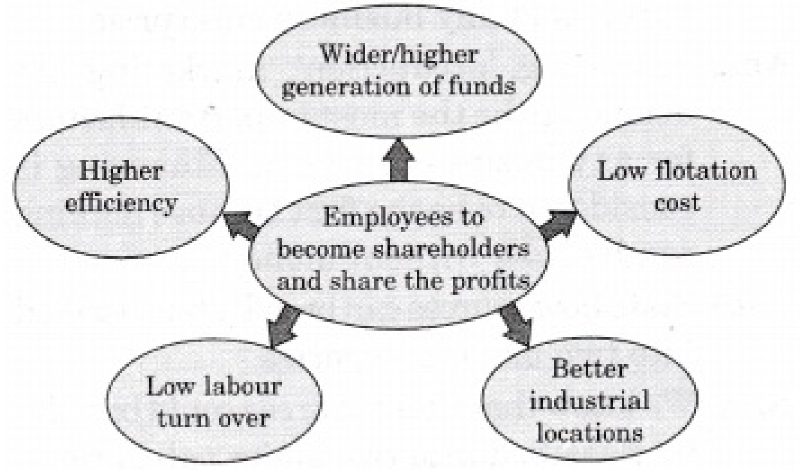
3. Entrepreneur can use the capital raised for a variety of purposes, what are they?
Answer: Entrepreneur can use the capital raised for a variety of purposes including:

1. Growth and expansion
2. Retiring existing debt
3. Corporate marketing and development
4. Acquisition capital.

4. How can an entrepreneur, raises funds by selling the issue mainly to the institutional investors?
Answer: Private Placement: Any entrepreneur can directly sale of its securities of a company to a limited number of sophisticated investors. Entrepreneurs can raise funds by selling the securities mainly to the institutional investors like:

Entrepreneurs both from public limited and private limited sectors, banks heavily upon raising funds through the issues of varied financial instruments under this segment as at times they do not wish to disclose information to the open market.

5. How stock options lead to enable employees to become shareholders and share the profits of the company?
Answer: Stock options or offering shares to the employees has gained much popularity in many countries of the world. This method enables employees to become shareholders and share the profits of the company leading to:



C. LONG ANSWER TYPE QUESTION
1. Explain some important sources of raising finance in business.
Answer:
A. Methods of flotation of new issues: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

1. Public issue: 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 enterprise organizing itself as a public limited company can raise the required funds commonly by preparing a prospectus.
When an entrepreneur offers shares to the public for subscription he/she is required to comply with all the restrictions and formalities

pertaining to the initial issues, prospectus drafting and launch.
One of the most difficult problems in the new venture creation process is obtaining finance when an entrepreneur decides to go public and become a public company.
2. Rights issue: 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.
Normally, through a circular, 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. This method of issuing securities is considered to be inexpensive as it does not require any brokers, agents, underwriters, prospectus or enlistment, etc.
3. Private placement: Private placement means the direct sale by a company of its securities to a limited number of sophisticated investors. Entrepreneurs, herein, raise funds by selling the issues mainly to the institutional investors like:

- Unit Trust of India
- Life Insurance Corporation of India
- General Insurance Corporation of India
- Army Group Insurance
- State Level Financial Corporations, etc.

Entrepreneurs both from public limited and private limited sectors bank heavily upon raising funds through the issue of varied financial instruments under this segment as at times they do not wish to disclose information to the open market.

Offer to employees: Stock options or offering shares to the employees has gained much popularity in many countries of the world. This method enables employees to become shareholders and share the profits of the company leading to:

- Higher efficiency
- Low labour turnover
- Better industrial locations
- Low floatation cost
- Wider/higher generation of funds.

B. Angle investors: Business angle or informal investor or an angle investor, is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity. Venture capital is a type of private equity capital provided as seed funding to early-stage, high potential, high risk, grown up companies/entrepreneurs who lack the necessary experience and funds to give shape to their ideas.

1. It is basically equity finance in relatively new companies.
2. It is long-term investment in growth- oriented small or medium firms.
3. Venture capitalists not only provide capital but also business skills to investee firms.
4. It involves high risk-return spectrum. Funding: Obtaining venture capital is substantially different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business.

SFIs were established to meet the long-term financial requirement of such enterprises on economic and social ground. These Specialized Financial Institutions in India are not only committed to financial services but are also devoted towards playing a role of a promotional “mentor” and technical advisor to a wide range of the upcoming and existing entrepreneurs. Thus, these Specialized Financial Institutions (SFIs) make an important source of medium and long¬term financing amongst all the financial institutions in India, to the industry.

A. At national level/All India development banks

1. Industrial Development Bank of India (IDBI)
2. Small Industries Development-Bank of India (SIDBI)
3. Industrial Finance Corporation of India (IFCI)
4. Industrial Credit and Investment Corporation of India (ICICI)
5. National Bank for Agriculture and Rural Development (NABARD)
6. Industrial Investment Bank of India Ltd. (IIBI)

B. At state level

1. State Financial Corporation (SFCs)
2. Tourism Finance Corporation of India (TFCI)
3. State Industrial Development Corporations (SIDC)

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