B. SHORT ANSWER TYPE QUESTIONS

1. For what purpose is finance required right from the very beginning i.e. conceiving an idea?

Answer:

Promote or establish the business

To acquire fixed assets

Encourage management to make progress and create value

Develop product

Make market investigations

Be enough to meet unexpected/unplanned business expenses

Encourage management to make progress and create value

Keep men and machine at work

2. What is the need of finance?

Answer:

1. Finance is one of the important prerequisites to start an enterprise.
2. It helps an entrepreneur to arrange all other required resources together like, personnel, machines, materials, methods, land, etc. to start up the business systematically.
3. It helps an entrepreneur to start and run his business activities smoothly and convert a dream into reality.

3. An entrepreneur is a person who bears the risks, unites various factors of production and carries out a creative innovation, and for doing all these, what is the basic requirement to be reached to this extent.

Answer: Finance.

4. State some mushrooming sources of raising finance in the business.

Answer: A company may raise funds for different purposes depending on the time periods ranging from very short to fairly long duration. The total amount of financial needs of a company depends on the nature and size of the business. The scope of raising funds depends on the sources from which funds may be available. Here, we shall discuss some mushrooming sources available to an entrepreneur to raise finance; Long-Term and Medium- Term Capital, they have the following options:

1. Capital markets:
    - Issue of Shares
    - Equity shares: The rate of dividend on these shares depends on the profits available and the discretion of directors. Hence, there is no fixed burden on the

company. Each share carries one vote.
    - Preference shares: Dividend is payable on these shares at a fixed rate and is payable only if there are profits. Hence, there is no compulsory burden on the company's finances. Such shares do not give voting rights.
    - Issue of Debentures.
2. Angle investors: Business angle 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.
3. Venture capital: Venture capital is an equity based investment in a growth-oriented small to medium business to enable the investors to accomplish objectives, in return for minority shareholding in the business. It is a way in which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and obtain long-term capital gains.
4. Specialized financial institutions 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)

B. At state level

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

C. LONG ANSWER TYPE QUESTIONS
1. State the nature of money market. Who are the major participants in the money market?
Answer: Money market refers to transactions involving lending and borrowing of money for short periods like a day a week a month or 3 to 6 months. It meets the short term requirements.
The major participants in the market are:

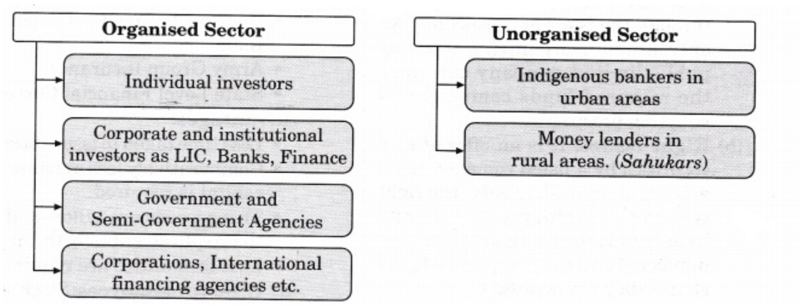
1. Reserve Bank of India
2. Commercial Banks, Cooperative Banks
3. Non-Banking Finance Companies
4. State Government
5. Large Corporate Houses and Mutual Funds
6. LIC, GIC, UTI, etc.

2. Explain how capital markets are the most important source of raising finance for an entrepreneur.
Answer: Capital markets are the most important source of raising finance for the entrepreneurs.
This market:

1. Mobilises the financial resources on a nation-wide scale.
2. Secures the much required foreign capital and know-how to promote economic growth at a faster rate.
3. Ensures the most effective allocation of the mobilized financial resources by directing the same either to such projects which are capable of the highest yield or to the under developed priority areas where there is an urgent need to promote balanced and diversified industrialization. The needs of entrepreneurs who actually use the savings for productive purposes are varied. The capital market satisfies the tastes of savers and the needs of investors through its financial

instruments and institutions.

3. What do you understand by capital market? How can the capital market in India be broadly classified into different categories?
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. The capital market in India may be broadly classified into:



4. Write down the sectors of organized and unorganized market.
Answer: The capital market in India may be broadly classified into:
A. Organized Markets: This segment comprises of

1. Corporate enterprises
2. Government and semi-government institutions requiring funds for various development activities
3. Individual investors
4. Corporate and institutional investors, as LIC, Banks, Finance Corporations, International financing agencies, etc.

B. Unorganized Sector:
The unorganized sector consists of

1. The indigenous bankers in urban areas.
2. The money lenders in rural areas.

5. What is meant by primary market? Briefly explain the concept of 'Right Issue for existing companies'.
Answer: Primary market is basically meant to facilitate transfer of resources from the savers to the entrepreneurs seeking funds for:

1. Setting new enterprises,
2. Expanding,
3. Diversifying.

1. 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.
2. It is proposed through a circular to all the existing shareholders only.
3. It is not mandatory to purchase these shares if any shareholders are not willing to subscribe, they can reject or disclaim and others can subscribe for it.

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