III. LONG ANSWER TYPE QUESTIONS
Question 1. How stock options method enables employees to become shareholders and share the profits?
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:

1. Higher efficiency
2. Low labour turnover
3. Better industrial locations
4. Low floatation cost
5. Wider/higher generation of funds.

Question 2. What is seed capital? Give example.
Answer:

1. Capita] needed to set up a new business or enterprise. It can be obtained from owners or his/her relatives or from outside sources.
2. It is that money used for the initial investment in a project or start up company provided to an entrepreneur to prove the feasibility of the project and quality of start up capital.
3. To avail this sources of finance he may concern and contact various agencies, financial institutions. Example: Narayan Murthy started Infosys in 1981, he had no capital and his wife Sudha Murthy gave him Rs 10,000 which can be considered as seed capital.

Question 3. Explain the features of Venture capital.
Answer: Venture capital finance has the following features:

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.
5. It is a subset of private equity.
6. The venture capital institutions have a continuous involvement in the business after making the investment.
7. Such institutions disinvest the holdings either to the promoters or in the market.

Question 4. "Primary market basically to facilitate transfer of resources from the savers to the entrepreneurs seeking funds." How?
Answer: Primary market refers to a place where issue of securities (shares, debentures and bonds) being issued for the first time by new companies or new issue Of securities by existing companies to investors. In these market all the entrepreneurs raise funds for:

1. Setting new enterprises
2. Expanding
3. Diversifying

Therefore, it is also called as "New Issue Market".

The ‘new issues’ may be issued by:

1. New companies - also called initial issues.
2. Old companies - also called further issues.

Question 5. What do you understand by Public Issue/ Going Public/Offers Through Prospectus/ Initial Public Offers (IPOs)?
Answer: 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.

1. It involves all public limited company can raise the required funds commonly by preparing a prospectus.
2. Prospectus helps a company to raise funds through public.
3. When an entrepreneur offers shares to the public for subscription he/she is required to comply with all the restrictions and formalities according to the provision of companies Act and SEBI Guidelines of pertaining to the initial issues, prospectus drafting and launch.
4. The issues must be listed on at least one stock exchange.

Question 6. What do you understand by Private placement of shares?
Answer: 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:

1. Unit Trust of India
2. Life Insurance Corporation of India
3. General Insurance Corporation of India
4. Army Group Insurance
5. State Level Financial Corporations, etc.
   Entrepreneurs both from public limited and private limited sector, 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.

Question 7. How many venture capital institutions are there in India?
Answer: On present, many Venture Capital Companies/funds have been set up in India, in both the public and the private sectors, for example,

1. Industrial Development Bank of India’s Venture Capital Fund
2. Technology Development and Information Company of India Ltd. (TDICI)
3. Risk Capital and Technology Finance Corporation Ltd.
4. Gujarat Venture Finance Ltd. (GVFL)
5. Andhra Pradesh Industrial Development Corporation (APIDC) Venture Capital Fund.
6. National Venture Fund for Software and IT Industry.
7. The Can bank Venture Capital Fund
8. The Credit Capital Venture Fund Ltd. etc.

Question 8. Explain the functions of Industrial Investment Bank of India Ltd (IIBI).
Answer:

1. The Industrial Investment Bank of India Ltd. (IIBI) was formed by transforming the Industrial Reconstruction Bank of India (IRBI).
2. It was set up by IDBI at the instance of the Government of India in April 1971 for rehabilitation of sick industrial companies.
3. IRBI was incorporated under the Companies Act, 1956 and renamed as the Industrial Investment Bank of India Ltd. in March 1997.

Functions: IIBI offers a wide range of products and services such as:

1. Term-loan assistance for project finance.
2. Short duration non-project asset - backed financing working capital/ other short term loans to companies.
3. Equity Subscription Asset Credit.
4. Equipment finance.
5. Investments in Capital Market and Money market instruments.

Question 9. "Working in stock exchange means any one can enter for trading and no specific rules are to be followed." Justify.
Answer:

1. Stock exchange is a place where all the transactions in securities are effected only through its authorized * brokers and members means no outsiders or direct investors are allowed to enter in the trading circles of the stock exchange.
2. Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as SEBI Guidelines. No deviation from the rules and guidelines is allowed in any case.

Question 10. " Stock exchanges are the financial barometers of an economy". How?
Answer:

1. Stock exchanges are the financial barometers and development indicators of national economy of the country.
2. It help businesses to raise capital and give investors opportunities to back new and established enterprises.
3. It also help business and entrepreneurs to come together to buy and sell trade shares for the purpose to raise more capital.
4. Continuous growth of industries is reflected in the index of stock exchange.
5. Rising stock market, through rising prices, more investors can create a sense of confidence and gives positive direction in the growth of an economy.

Question 11. Explain the organisation and management, membership and functioning of stock exchange in India.
Answer: The organisation, management, membership and functioning of stock exchanges in India are governed by the provisions of The Securities Contracts (Regulation) Act, 1956. This Act permits only recognized stock exchanges to function under the rules, regulations and by-laws approved by the Central Government.At present there are 24 stock exchange in India.
The stock exchanges of India have the following organisational form:

1. Voluntary non-profit making associations
2. Public limited company
3. Company limited by guarantee

The governing body is responsible for policy formulation and proper functioning of the exchange, having wide range of powers viz.

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

Question 12. 'For the smooth and orderly functioning of corporate sector in a free market economy, stock exchanges are

indispensable because of different roles played by them for different groups.' Explain the importance of stock exchange to investors in the light of this statement.[CBSE Delhi 2015]
Answer: Importance of stock exchange to investors:

1. Dissemination of useful Information: Stock exchange publish useful information regarding price lists, quotations, etc., of securities through newspapers and journals. The interested persons buy and sell their securities on the basis of information provided by the stock exchanges.
2. Ready Market: Persons desirous of converting their shares into cash may easily do so through a member of stock exchange.
3. Investors' Interests Protected: Stock exchanges formulate rules and regulations so that members may not , exploit the investors.

Question 13. Naveen after completing his M. Tech in Nano Technology wanted to start his own business. He thought to manufacture sophisticated instruments used in surgery. He knew that his knowledge of Nano Technology will help him in manufacturing these instruments. According to him such instruments will help the surgeons to operate upon the patients with accuracy, with minimum blood loss and quick post operation recovery. Such types of instruments are used in advanced countries only and there was a risk in marketing the same. The cost price of machinery required, for manufacturing such instruments was very high and more research was required in this field of Nano Technology. For seed funding, Naveen approached. 'Himani Capital Ltd.' who finance such types of projects. 'Himani Capital Ltd.' after analysing the proposal agreed to provide seed capital to Naveen. Explain the different stages of 'Early Stage Financing' to seek venture capital finance after the one discussed above.[CBSE Delhi 2015]
Answer:

1. Pre-start up and start up finance: A business plan is presented by the entrepreneur to the VC firm. A management team is being formed to run the venture. If the company has a board of directors, a person from the VC firms wall take seats at the board of directors. The VC firm monitors the feasibility of the product and the capability of the management-team from the board of directors.
2. Second round financing: This is the first encounter with the rest of the market. The entrepreneur, at this stage, needs assistance from the Venture Capitalist for expansion, modernization, diversification so that the economies of scale and stability could be attained.

Question 14. 'Angel Investors' and 'Venture Capital' are the two sources of raising finance for an entrepreneur. Explain the concept of both the sources stating one distinguishing feature of each.[All India 2015]
Answer: Angel Investor is an affluent individual who provides capital for a business start¬ups and early stage companies using a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.
Venture Capital is a type of a private equity capital provided as seed funding to early stage, high potential, high risk, growth up companies/entrepreneurs. Distinguishing Feature: Angel investors participate in the management of the business but venture capitalists do not take part in the management of the business.

Question 15. Ganga Dhar was working as the production manager in a German company. The company was producing remote operated high-end kitchen equipments. He resigned from his job and

returned to Patna, his hometown. In Patna he met Aditya, his old friend, who had been managing his factory producing steel utensils with old technology. Ganga Dhar encouraged Aditya for the production of high-end kitchen equipments. He also promised to help Aditya by providing funds and his expertise so that the production unit run by Aditya can develop into a big production house and its investors may get high return on investments. Identify the kind of'source of capital' provided by Ganga Dhar to Aditya and explain the same. [All India 2015]
Answer:
Angel Investors:
Following are the features of Angle Investors:

1. They are current or retired executives, business owners or high net worth individuals who have the knowledge, experience, and funds.
2. They bear extremely high risk and expect a very high return.
3. They provide proactive advice, ' guidance industry connections and mentoring start-ups in its early days.
4. Their objective is to create great companies by providing value creation.
5. They have a sharp inclination to keep abreast of current.

Question 16. Ram was very thrilled with his new job. He was placed in a small factory manufacturing door knobs as a stock keeper. After a few days, while taking stock he understood that nuts and various small parts constituted majority of the cost of production. After some time, the firm went into a loss and the owner decided to look into the various factors that could have constituted the loss. Ram expressed his concern that inventory was not properly maintained and that there are various techniques which are involved and if followed properly the company will not be in a loss. The owner agreed to the suggestion. He also decided to take help from some specialized government institution initiate steps for technological up gradation, and modernization of existing units. [CBSE Sample Paper 2016]

1. What technique was suggested by Ram? Explain it.
2. Which specialized financial institution is the owner thinking of approaching and state any one of its objectives?

Answer:
ABC Analysis:

1. The inventory control technique known as ABC analysis builds on Pareto's Principle.
   In ABC analysis, a company reviews its inventory and sorts all SKUs into three categories, called 'A', 'B' and 'C' items.
   The typical breakdown might look like this: 'A' inventory: 20 per cent of SKUs, 80 per cent of value. 'B' inventory: 30 per cent of SKUs, 15 per cent of value. 'C' inventory: 50 per cent of SKUs, 5 per cent of value.
   A particular company's numbers may be different, hut the pattern would be similar we should be able to discern a similar kind of pattern.
2. SIDBI (Small Industries Development Bank of India)
   Objectives of SIDBI are:Initiate steps for technological up gradation, and/or modernization of existing units.

Question 17. Why is stock exchange important for an investor? [CBSE Sample Paper 2016]
Answer: Importance of stock exchange from the viewpoint of investors:

1. Dissemination of useful information: Stock exchange publishes useful information regarding price lists, quotations, etc., of

securities through newspapers and journals.
The interested persons buy and sell their securities on the basis of information provided by the stock exchanges.

2. Ready market: Persons desirous of converting their shares into cash may easily do so through a member of stock exchange.
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: Stock exchange removes the barriers of distance with regard to securities listed there. Without stock exchange the securities of a Delhi company may have a limited market in Delhi 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.

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