

QB365 Question Bank Software Study Materials

Capital Market Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

12th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

1) What is Capital Market?

Answer : Capital market is a market where buyers and sellers engage in trade of financial securities like bonds and stocks. The buying/selling is undertaken by participants such as individuals and institutions.

2) Write a note on OTCEI.

Answer : (i) OTCEI means Over The Counter Exchange of India.
(ii) The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.
(iii) It addresses some specific problems of both investors and medium-size companies.

3) Who are the participants in a Capital Market?

Answer : The participants of the capital market include individuals, corporate sectors, Government, banks and other financial institutions.

4) How is price determined in a Capital Market?

Answer : The price of the securities is determined based on the demand and supply prevailing in the capital market for securities.

5) What is Mutual Fund?

Answer : (i) Financial institutions that provide facilities for channeling savings, of small investors into avenues of productive investments are called Mutual Funds.
(ii) A mutual fund company invests the funds pooled from shareholders and gives them the benefit of diversified investment portfolio and a reasonable return

6) Define capital market.

Answer : According to Arun K. Datta, capital market may be defined as "a complex of institutions investment and practices with established links between the demand for and supply of different types of capital gains".

7) What is SEBI?

Answer : SEBI means securities and Exchange Board of India. SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors.

8) What do you mean by derivatives market?

Answer : (i) Derivatives market facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk.
(ii) The instruments derive their value mostly from the value of an underlying asset that can come in many forms - stocks, bonds, commodities, currencies or mortgages.

9) Oil and Coffee are sold in a commodity market. Mention the market to which they belong?

Answer : Oil → Hard commodities market
Coffee → Soft commodities market

10) The proverb "Drops of water makes an ocean " is best suited for...

Answer : Mutual fund

11) What are the various kinds of Capital Market? Explain. (any 3)

Answer : Capital market is divided into two i.e. primary market and secondary market.

(i) Primary Market

(a) Primary Market is a market for new issues or new financial claims. Hence, it is also called New Issue Market.

(b) The primary market deals with those securities which are issued to the public for the first time.

(c) In the primary market, borrowers exchange new financial securities for long term funds.

(d) There are three ways by which a company may raise capital in a primary market. There are:

a) Public Issue

b) Rights Issue

c) Private Placement

(ii) Secondary Market :

(a) Secondary Market may be defined as the market for old securities.

(b) Securities which are previously Issued in the primary market are traded here.

(c) The trading takes place between investors who follow the original issue in the primary market.

12) Explain any two functions of Capital Market.

Answer : (i) Savings and Capital Formation:

(a) In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Government, etc.).

(b) The twin features of reasonable return and liquidity in stock exchange are definite incentives to the people to invest in securities.

(c) This accelerates the capital formation in the country.

(ii) Ready and Continuous Market:

(a) The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.

(b) Easy marketability makes investment in securities more liquid as compared to other assets.

13) Explain about Factoring and Venture Capital Institutions.

Answer : The functions of capital market are as follows:

(i) Factoring Institutions:

(a) "Factoring" is an arrangement whereby a financial institution provides financial accommodation, on the basis of assignment/sale of account receivables.

(b) The factoring institutions collect the book debts for and on behalf of its clients.

(c) Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

(ii) Venture Fund Institutions:

(a) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.

(b) Venture capital funds bring into force the hi-technology projects which are converted into commercial production.

(c) Many specialized financial institution have promoted their own venture capital funds. They include Risk Capital Foundation of IFCI, Venture fund of IDBI, SIDBI Technology Development Infrastructure Corporation of India (TDICI) and others.

14) Write a note on National Clearance and Depository System (NCDS).

Answer : (i) Under the scripless trading system, settlement of transactions relating to securities takes place through a book entry.

(ii) The entire scripless trading system comprises the following three segments.

(iii) National Trade Comparison and Reporting System, which prescribes the terms and conditions of contract for the securities market.

(iv) National Clearing System which aims at determining the net cash and stock liability of each broker on a settlement date.

(v) National Depository System, which arranges to provide for the transfer of ownership of securities in exchange on payment by book entry on electronic ledgers without any physical movement of transfer deed.

15) Discuss about evolution and growth of Indian Capital Market.

Answer : (i) The period between 1947 and 1973 marked the development of infrastructure for capital market.

(ii) During this period, a network of development financial institutions such as IFCI, ICICI, IDBI and UTI, SFCs and SIDCs were established. These financial institutions strengthened the capital market.

(iii) During the period between 1980 and 1992, debenture emerged as a powerful instrument of resource mobilization in the primary market. The public sector bonds were introduced. A number of stock exchanges came into existence. There was a momentous growth in the secondary market.

(iv) SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors. New financial services such as credit rating was introduced.

(v) A number of committees were constituted in order to suggest measures to revamp and restructure the working of the secondary market and cause buoyancy in the primary market.

(vi) A High Powered Study Group on Establishment of New Stock Exchange, A Committee on Trading in Public Sector Bonds and Units of Mutual Funds.

16) How new issues are floated in the primary market?

Answer : There are three ways by which a company may raise capital in a primary market. They are:

(i) Public issue: The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.

(ii) Rights issue: When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue.

(iii) Private placement: Private placement is a way of selling securities privately to a small group of investors.

17) Explain commodity market

Answer : A commodity market is a place where buyers and seller can trade any homogenous good in bulk. Commodities are commonly classified in two subgroups.

(i) Hard commodities : Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron and ore.

(ii) Soft commodities : Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee and sugar.

18) What do mean by Industrial Growth?

Answer : (i) The stock exchange is a central market through which resources are transferred to the industrial sector of the economy.

(ii) The existence of such an institution encourages people to invest in productive channels.

(iii) Thus it stimulates industrial growth and economic development of the country by mobilizing funds for investment in the corporate securities.

19) Explain the development of Backward Areas.

Answer : (i) Capital markets provide funds for projects in backward areas.

(ii) This facilitates economic development of backward areas.

(iii) Long term funds are provided for development projects in backward and rural areas

20) What are the types of Commodity Market?

Answer : Commodities are classified into two types. They are Hard commodities and Soft commodities.

Hard Commodities Market

Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron and ore.

Soft Commodities Market

Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee and sugar.

5 Marks

5 x 5 = 25

21) Discuss the characters of a Capital Market.

Answer : Following are the nature/characteristic of a capital market.

(i) Securities Market

The dealings in a capital market are done through the securities like shares, debentures, etc. The capital market is thus called securities market.

(ii) Price

The price of the securities is determined based on the demand and supply prevailing in the capital market for securities.

(iii) Participants

There are many players in the capital market. The participants of the capital market include individuals, corporate sectors, Govt., banks and other financial institutions.

(iv) Location

Capital market is not confined to certain specific locations, although it is true that parts of the market are concentrated in certain well-known centers known as Stock Exchanges. It has its impact in the overall economy, wherever suppliers and users of capital get together and do business.

(v) Market for Financial Assets

Capital market provides a transaction platform for long term financial assets.

22) Briefly explain the functions of capital market. (any 5)

Answer : The significance of capital market functions are as follows

(i) Savings and Capital Formation

In capital market, various types of securities help to mobilize savings from various sectors of population like Individuals, Corporate, Government, etc.

(ii) Permanent Capital

The existence of a capital market/stock exchange enables companies to raise permanent capital.

(iii) Industrial Growth

The stock exchange is a central market through which resources are transferred to the industrial sector of the economy. The existence of capital market/stock exchange encourages people to invest in productive channels.

(iv) Ready and Continuous Market

The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.

(v) Reliable Guide to Performance

The capital market serve as a reliable guide to the performance and financial position of corporate and thereby promotes efficiency.

(vi) Proper Channelization of Funds

The prevailing market price of security and relative yield are the guiding factors for the people to channelize their funds in a particular company.

23) Explain the various types of New Financial Institutions. (any 5)

Answer : (i) Venture Fund Institutions :

- (a) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- (b) Many specialised financial institutions have promoted their own venture capital funds.
- (c) They include Risk Capital Foundation of IFCI, Venture capital of IDBI, SIDBI,TDICI and others.

(ii) Mutual Funds :

- (a) Financial institutions that provide facilities for channeling savings of small investors into a venues of productive investments are called "Mutual Funds".
- (b) Specialized financial institutions like LIC, UTI, etc., beside Commercial banks such as SBI, and Canara Bank are carrying out the business of mutual funds.

(iii) Factoring Institutions :

- (a) "Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/ sale of account receivables.
- (b) Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

(iv) Over the Counter Exchange of India (OTCEI) :

- (a) The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.
- (b) It addresses some specific problems of both investors and medium-size companies.

(v) National Stock Exchange of India Limited :

- (a) NSEI was established in 1992 to function as a model stock exchange.
- (b) The Exchange aims at providing the advantage of nation-wide electronic screen based "scripless" and "loorless" trading system in securities.

- 24) Explain the terms : (i) Mutual Funds
(ii) Foreign Exchange Market

Answer : (1) Mutual Funds:

- (i) Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called ' Mutual Funds'.
 - (ii) A mutual fund company invests the funds pooled from shareholders and gives them the benefit of diversified investment portfolio and a reasonable return.
 - (iii) Specialized financial institution like LIC, UTI., etc
- (2) Foreign Exchange Market
- (i) The foreign exchange market abets the foreign exchange trading.
 - (ii) It is largest, most liquid market in the world with an average traded value of more than \$5 trillion per day.
 - (iii) It includes all of the currencies in the world and any individual, company or country can participate in it.

- 25) Differentiate Primary Market and Secondary Market

Answer :

S.no	Primary market	Secondary Market
1	Primary market is a market for new issues or new financial claims.	Secondary Market may be defined as the market for old securities
2.	Primary market deals with those securities which are issued to the public for the first time	The trading takes place between investors who follow the original issue in the Primary market
3.	Borrowers exchange new financial securities for long term funds.	It cover both stock exchange and over the counter market.