QB365 Question Bank Software Study Materials

Introduction to Financial Markets Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

12th Standard

Commerce

Total Marks : 75

2 Marks

9 x 2 = 18

1) What are the components of organized sectors?

Answer : Organised sector consist of Regulators, Financial Institutions, Financial markets and Financial services.

2) What is Debt market?

Answer : Debt Market is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, Corporate Debentures or Bonds).

3) How is price decided in a Secondary Market?

Answer : Secondary markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers. They provide a signal for the allocation of funds in the economy, based on the demand and supply, though the mechanism called price discovery processes.

4) What is Spot Market?

Answer : Cash/Spot Market is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

5) Write a note on financial market.

Answer : A market where in financial instruments such as financial claims, assets and securities are traded is known as a financial market.

6) What are the components of Unorganised Sectors?

Answer : Money Lenders,Indigenous bankers

7) What is money market?

Answer : Money market is the market for short term financial claim. (E.g) Treasury Bills, Commercial paper, Certificates of Deposit.

8) What do you mean by price determination?

Answer : (i) Financial markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers.
(ii) They provide a signal for the allocation of funds in the economy, based on the demand and supply, through the mechanism called price determination

9) What is sale mechanism?

Answer : Financial market provides a mechanism for selling of a financial asset by an investor so as to offer the benefits of marketability and liquidity of such assets

3 Marks

9 x 3 = 27

10) Give the meaning of Financial Market.

Answer : A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'. In another words, financial markets may be channels through which flow loanable funds directed from a supplier who has an excess of assets toward a demander who experiences a deficit of funds.

11) Write a note on Secondary Market.

Answer : (i) Secondary market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here.
(ii) The trading takes place between investors who follow the original issue in the primary market.
(iii) It covers both stock exchange and over the counter market.

12) Bring out the scope of financial market in India.

Answer : (i) The financial market provides financial assistance to individuals, agricultural sectors, industrial sectors, service sectors, financial institutions like banks, insurance sectors, provident funds and the government as a whole.
(ii) With the help of the financial market all the above stated individuals, institutions and the Government can get their required funds in time.
(iii) Through the financial market the institutions get their short term as well as long term financial assistance.
(iv) It leads to the overall economic development.

13) Differentiate spot market from future market .

Answer :

Spot Market	**Future Market**
Spot market is a market where the delivery of the financial instrument and payment of cash occurs immediately i.e. settlement is completed immediately. It is otherwise called Cash Market	Future market is a market where the delivery of asset and payment of cash takes place at a pre-determined time frame in future. It is otherwise called Forward Market.

14) Write a short note on
(a) Primary market
(b) Secondary market

Answer : (a) Primary market:
(i) Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers.
(ii) Here the money from investors goes directly to the issuers.
(b) Second by market:
(i) Secondary market is the market for securities that are already issued.
(ii) Stock exchange is an important institution in the secondary market

15) Explain the classification of financial assets.

Answer : Financial assets can be classified differently under different circumstances. One such classification is :
(i) Marketable assets
(ii) Non-marketable assets
(I) Marketable Assets:
(a) Marketable assets are those which can be easily transferred from one person to another without much hindrance:
(b) Example: Shares of Listed companies, Government securities, Bonds of Public sector undertakings etc.
(ii) Non marketable Assets:
(a) If the assets cannot be transferred easily, they come under this category.
(b) Example: Bank deposits, Provident funds, Pension funds, National savings Certificates, Insurance policies etc.

16) What is Industrial Development?

Answer : The different components of financial markets help an accelerated growth of industrial and economic development of a country thus contributing to raising the standard of living and the society's well being.

17) What is Entrepreneurship Growth?

Answer : Financial Markets contribute to the development of the entrepreneurial class by making available the necessary financial resources

18) What do you meant by National Growth?

Answer : (i) Financial markets contribute to a nation's growth by ensuring an unfettered flow of surplus funds to deficit units.

(ii) Flow of funds for productive purposes is also made possible. It leads to overall economic growth.

5 Marks 6 x 5 = 30

19) Distinguish between New issue market and Secondary market. (any 5)

Answer :

S.NO	BASIS OF COMPARISON	NEW ISSUE MARKET	SECONDARY MARKET
1.	Meaning	The market place for new shares is called primary market.(Initial Issue Market)	The place where formerly issued securities are traded is known as Secondary market. (Resale Market)
2	Buying	Direct	Indirect
3.	Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification.	It does not provide funding to companies.
4.	Buying and selling between	Company and Investors	Investors
5.	Gained Person	Company	Investors
6	Intermediary	Underwriters	Brokers

20) Enumerate the different types of financial markets.

Answer : Financial markets can be classified in different ways. They are as follows

(i) On the Basis of Type of Financial Claim

(a) **Debt Market**: Debt market is the financial market for trading in Debt instruments(i.e Government Bonds or Securities, Corporate Debentures or Bonds).

(b) **Equity Market:** Equity market is the financial market for trading in equity shares of companies

(ii) On the basis of Maturity of Financial Claim

(a) **Money Market:** Money market is the market for short term financial claim (usually one year or less) E.g. Treasury Bills, Commercial Paper, Certificates of Deposit

(b) **Capital Market:** Capital market is the market for long term financial claim more than a year Example : Shares and Debentures

(iii) On the Basis of Time of Issue of Financial Claim

(a) **Primary Market:** Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers (Companies).here the money from investors goes directly to the issuers.

(b) **Secondary Market:** Secondary market is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.

(iv) On the Basis of Timing of Delivery of Financial Claim

(a) **Cash/Spot Market:** Cash/Spot market is the market where the delivery of the financial instrument and payment of cash occurs immediately (i.e.) settlement is completed immediately.

(b) **Forward or Future Market:** Forward or Future market is a market where the delivery of the asset and payment of cash takes place at a pre determined time in future.

(v) On the Basis of the Organisational Structure of the Financial Market

(a) **Exchange traded Market:** Exchange traded market is a centralized organisation (stock exchange) with standardized procedures.

(b) **Over - the- counter Market:** Over - the- counter market is a decentralized market (outside the stock exchange) with customized procedures.

21) Discuss the role of Financial Market.

Answer : One of the important requisites for the accelerated development of an economy is the existence of a dynamic and a resilient financial market. A financial market is of great use for a country as it helps the economy in the following manner.

(i) Savings Mobilization:

Obtaining funds from the savers or surplus units such as household individuals, business firms, public sector units.Government is an important role played by financial markets.

(ii) Investment:

Financial market plays a key role in arranging the investment of funds thus collected, in those units which are in need of the same.

(iii) National Growth:

Financial markets contribute to a nation's growth by ensuring an unfettered flow of surplus funds to deficit units.Flow of funds for productive purposes is also made possible. It leads to overall economic growth.

(iv) Entrepreneurship Growth:

Financial markets contribute to the development of the entrepreneurial class by making available the necessary financial resources.

(v) Industrial Development:

The different components of financial markets help an accelerated growth of industrial and economic development of a country and thus contributing to raising the standard of living and the society's well-being.

22) What are the functions of Financial Markets?

Answer : The financial market two functions:

I. Intermediary Functions

II. Financial Functions

I. Intermediary Functions: The intermediary functions of a financial market include the following

(i) Transfer of resources: Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.

(ii) Enhancing Income: Financial markets allow lenders earn interest / dividend on their surplus investible funds and thus contributing to the enhancement of the individual and the national income.

(iii) Productive Usage: Financial markets allow for the productive use of the funds borrowed, thus enhancing the income and the gross national income

(iv) Capital Formation: Financial markets provide a channel through which new savings flow to aid capital formation of a country

(v) Price determination:

1. Financial markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers.

2. (ii) They provide a signal for the allocation of funds in the economy, based on the demand and supply; through the mechanism called price discovery process.

(vi) Sale mechanism: Financial market provides a mechanism for selling of a financial asset by investor so as to offer the benefits of marketability and liquidity of such assets.

(vii) Information: The activities of the participants in the financial market result in the generation and the consequent dissemination of information to the various segments of the markets, so as to reduce the cost of transaction of financial assets.

II. Financial Functions

1. The financial functions of a financial market include the following

(i) Providing the borrowers with funds so as to enable them to carry out their investment Plans.

(ii) Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in productive ventures.

(iii) Providing liquidity in the market so as to facilitate trading of funds

23) Discuss the various types of Financial markets.

Answer : Financial markets can be classified in different ways. They are as follows

(i) On the Basis of Type of Financial Claim:

(a) Debt Market : Debt market is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, corporate Debentures or Bonds).

(b) Equity Market: Equity market is the financial market for trading in Equity Shares of Companies.

(ii) On the Basis of Maturity of Financial Claim:

(a) Money Market: Money market is the market for short term financial claim (usually one year or less) Example: Treasury Bills, Commercial Paper, Certificates of Deposit

(b) Capital Market: Capital market is the market for long term financial claim more than a year Example: Shares and Debentures

(iii) On the Basis of Time of Issue of Financial Claim:

(a) Primary Market: Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers (companies). Here the money from investors goes directly to the issuers.

(b) Secondary Market: Secondary market is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.

(iv) On the Basis of Timing of Delivery of Financial Claim

(a) Cash/Spot Market : Cash or Sport market is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

(b) Forward or Futures Market: Forward or futures market is a market where the delivery of asset and payment of cash takes place at a pre-determined time in future.

24) What are the Classification of Financial Assets?

Answer : Financial assets can be classified differently under different circumstances. One such classification is

(i) Marketable assets

(ii) Non-marketable assets

(i) Marketable Assets

(i) Marketable assets are those which can be easily transferred from one person to another without much hindrance.

(ii) Examples: Shares of Listed Companies, Government Securities, Bonds of Public Sector Undertaking, etc.

(ii) Non-Marketable Assets

(i) On the other hand, if the assets canriot be transferred easily, they come under this category.

(ii) Example: Bank Deposits, Provident Funds, Pension Funds, National Savings Certificates, Insurance Policies, etc.