

# QB365 Question Bank Software Study Materials

## Money 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 a CD market?

**Answer :** (i) Certificate of Deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money.

(ii) Certificate of Deposits are issued in the form of usance promissory notes.

(iii) The Certificate of Deposit is transferable from one party to another.

(iv) Due to their negotiable feature, they are also known as negotiable certificate of deposit.

2) What is Government Securities Market?

**Answer :** A market whereby the government or gilt edged securities can be bought and sold is called 'Government securities market'.

3) What do you mean by Auctioning?

**Answer :** A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as auctioning.

4) What do you mean by Switching?

**Answer :** The purchase of one security against the sale of another security carried out by the RBI in the secondary market as part of its open market operations is described as switching.

5) Explain the two oldest money markets.

#### **Answer : 1. Treasury Bills**

(i) Treasury bills are very popular and enjoy a higher degree of liquidity since they are issued by the Government.

(ii) A Treasury bill is nothing but a promissory note issued for a specified period stated there in.

(iii) The Government promises to pay the specified amount mentioned there in to the bearer of the instrument on the due date.

(iv) The period does not exceed a period of one year.

#### **2. Commercial bills**

(i) A bill of exchange issued by a commercial organization to raise money for short-term needs.

(ii) These bills are of 30 days, 60 days and 90 days maturity.

(iii) The Commercial Bill is an instrument drawn by seller of goods on a buyer of goods.

6) What is cut-off rate?

**Answer :** 364 days Treasury bills do not carry any fixed rate of discount. The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut -off rate.

7) Who are the issuers of certificate of deposits?

**Answer :** The issuers of certificate of deposits are Commercial banks, Financial Institutions, etc.

8) Who are the subscribers of certificate of deposits?

**Answer :** The certificate of deposits are available for subscription by individuals, corporations, trusts, associations and NRIs.

9) What is Treasury Bill Market?

**Answer :** A market for the purchase and sale of Treasury Bill is known as a "Treasury Bill Market".

10) I have bills with me with no due date but I can withdraw it when present it instantly

11) What are the features of Treasury Bills?(any 3)

**Answer :** The treasury Bills incorporate the following general features:

- (i) Issuer
- (ii) Finance Bills
- (iii) Liquidity
- (iv) Vital Source
- (v) Monetary Management

12) Who are the participants of Money Market? (any 3)

**Answer :** There are many participants in the Money Market.

The participants are as follows:

- (i) Government of different countries
- (ii) Central banks of different countries
- (iii) Private and Public banks
- (iv) Mutual fund institutions
- (v) Insurance companies
- (vi) Non-Banking Financial Institutions

13) Explain the types of Treasury Bills? (any 3)

**Answer :** Treasury bills are issued to the public and other financial institutions for meeting the short-term financial requirements of the Central Government. These bills are freely marketable and they can be bought and sold at any time and these bills are tradable in secondary market as well.

On the basis of periodicity, Treasury bills may be classified into three. They are:

- (a) 91 days Treasury bills
- (b) 182 days Treasury bills and
- (c) 364 days Treasury bills

- (i) Ninety one days Treasury bills are issued at a fixed discount rate of 4 per cent as well as through auctions.
- (ii) The RBI holds 91 days and 182 days Treasury bills and they are issued on tap basis throughout the week.
- (iii) 364 days Treasury Bills do not carry any fixed rate. The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut off rate.

14) What are the types of Commercial Bill? (any 3)

**Answer :** The various types of Commercial Bill are as follows:

- (i) Demand bills
- (ii) Clean bill and documentary bills
- (iii) Inland bills and foreign bills
- (iv) Indigenous bills
- (v) Accommodation and Supply bills.

(i) Demand bills: A demand bill is one wherein no specific time of payment is mentioned.

(ii) Clean bills and documentary bills: Bills that are accompanied by documents of title to goods are called documentary bills. Eg: Railway Receipt and Lorry Receipt.

(iii) Inland bills and Foreign bills: Bills that are drawn and payable in India on a person who is resident in India are called inland bills. Bills that are drawn outside India and are payable either in India or outside India are called foreign bills.

15) What are the features of Certificate of Deposit?

**Answer :** Features of certificate of deposits are:

- (i) Document of title to time deposit
- (ii) It is unsecured negotiable instruments.
- (iii) It is freely transferable by endorsement and delivery.
- (iv) It is issued at discount to face value.
- (v) It is repayable on a fixed date without grace days.

16) What are the objectives of money market?

**Answer :** A well-developed money market serves the following objectives :

- (i) Providing an equilibrium mechanism for ironing out short-term surplus and deficits.
- (ii) Providing a focal point for central bank intervention for influencing liquidity in the company.
- (iii) Providing access in uses to users of short term money to meet their requirements at a reasonable price.

17) Write a short note on clean bills and documentary bills.

**Answer :** (i) Bills that are accompanied by documents of title to goods are called documentary bills.

(ii) Clean bills are drawn without accompanying any document.

(iii) Example: Railway Receipt and Lorry Receipt.

18) What do you mean by Inland bills and foreign bills?

**Answer :** (i) Bills that are drawn and payable in India on a person who is resident in India are called inland bills.

(ii) Bills that are drawn outside India and are payable either in India or outside India are called foreign bills.

19) What is specimen copy of Certificate of Deposit?

**Answer : Issuers :** The Issuers of Certificate of Deposits are Commercial Banks, Financial Institutions., etc.

**Subscribers :** Certificate of Deposits are available for subscription by Individuals, Corporations, Trusts, Associations and NRIs.

20) What is Certificate of Deposits?

**Answer :** (i) Certificate of Deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money.

(ii) Certificate of Deposits are issued in the form of usance promissory notes.

(iii) They are easily convertible in nature and are in marketable form having particular face value and maturity.

(iv) The Certificate of Deposit is transferable from one party to another.

(v) Due to their negotiable feature, they are also known as negotiable certificate of deposit.

**5 Marks**

5 x 5 = 25

21) Differentiate between the Money Market and Capital Market.(any 5)

**Answer :**

S.No	Features	Money Market	Capital Market
1.	Duration of funds	It is a market for short-term loanable funds for a period of not exceeding one year.	It is a market for long-term funds exceeding period of one year.
2.	Deals with Instruments	It deals with instruments like commercial bills (bills of exchange, treasury bill, commercial papers, etc.)	It deals with instruments like shares debentures, government bonds, etc.
3	Money Value	Each single money market instrument is of large amount. Each certificate of deposits or commercial paper is for minimum of 5 lakhs	Each single capital market instrument is of small amount. Each share value is 10. Each debenture value is 100.
4	Role of major institutions	The central bank and commercial banks are the major institutions in the money market	Development banks and Insurance companies play a dominant role in the capital market.
5	Risk	Low credit and market risk	High credit and market risk.
6	Liquidity	High liquidity in Money Market	Low liquidity in Capital Market

22) Explain the characteristics of Money Market? (any 5)

**Answer : (i) Short-term Funds:**

It is a market purely for short-term funds or financial assets called near money.

**(ii) Maturity Period:**

It deals with financial assets having a maturity period upto one year only.

**(iii) Conversion of Cash :**

It deals with only those assets which can be converted into cash readily without loss and with minimum transaction cost.

**(iv) No Formal Place:**

Generally, transactions take place through phone i.e., oral communication. Relevant documents and written communications can be exchanged subsequently.

**(v) Sub-markets :**

It is not a single homogeneous market. It comprises of several sub-markets each specialising in a particular type of financing.

**(vi) Role of Market :**

The components of a money market are the Central Banks, Commercial Banks, Non-Banking Financial Companies, Discount Houses and Acceptance House. Commercial banks generally plays a dominant role in this market.

23) What are the characteristics of Government Securities? (any 5)

**Answer :** The characteristics of government securities are discussed below:

**(i) Agencies :**

Government securities are issued by agencies such as Central Government, State Governments, semi-government authorities like local Government authorities, example municipalities, autonomous institution such as metroplitian, port trusts etc.

**(ii) RBI Special Role:**

RBI takes a special and an active role in the purchase and sale of these securities as part of its monetary management exercise.

**(iii) Nature of Securities:**

Securities offer a safe avenue of investment through guaranteed payment of interest and repayment of principal by the Government.

**(iv) Liquidity Profile:**

The liquidity profile of gilt-edged securities varies. Accordingly liquidity profile of securities issued by Central Government is high.

**(v) Tax Rebate:**

A striking feature of these securities is that they offer wide-range of tax incentives to investors. This has made these securities very popular for this benefit.

**(vi) Market:**

As each sale and purchase has to be negotiated separately, the Gilt-Edged Market is an Over-the-Counter Market. The government securities market in India has two segments namely primary market and secondary market.

24) Explain the Instruments of Money Market?

**Answer :** 1. Treasury Bills

- (i) Treasury bills are very popular and enjoy a higher degree of liquidity since they are issued by the Government
- (ii) A Treasury bill is nothing but a promissory note issued for a specified period stated therein.
- (iii) The Government promises to pay the specified amount mentioned therein to the bearer of the instrument on the due date. The period does not exceed a period of one year.

2. Certificate of Deposits

- (i) Certificate of Deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money.
- (ii) Certificate of Deposits are issued in the form of usance promissory notes.
- (iii) They are easily convertible in nature and are in marketable form having particular face value and maturity.

3. Commercial Bills

- (i) A bill of exchange issued by a commercial organization to raise money for short term needs.
- (ii) These bills are of 30 days, 60 days and 90 days maturity.
- (iii) The commercial bill is an instrument drawn by a seller of goods on a buyer of goods.
- (iv) It possesses the advantages like self-liquidity in nature, recourse to two parties, knowing exact date of transactions, transparency of transactions, etc.

4. Government or Gilt Edged securities Market

A market whereby the government or gilt-edged securities can be bought and sold is called 'Government Securities Market'. Government securities are issued for the purposes of refunding the maturing securities, for advance refunding securities, which have not yet matured and for cash financing, (i.e.) raising fresh cash resources.

25) What is Commercial Bills and its features?

- Answer :**
- (i) A bill of exchange issued by a commercial organization to raise money for short term needs.
  - (ii) These bills are of 30 days, 60 days and 90 days maturity.
  - (iii) The commercial bill is an instrument drawn by a seller of goods on a buyer of goods.
  - (iv) It possesses the advantages like self-liquidating in nature, recourse to two parties, knowing exact date of transaction transparency of transaction, etc

Features of Commercial Bill:

1. Drawer
2. Acceptor
3. Payee
4. Discounter
5. Endorser
6. Assessment
7. Maturity
8. Credit Rating