Very Short Answer Questions NCERT Business Studies Solutions Class 12 Chapter 10

Q.1 What is a Treasury Bill?

Treasury bills are instruments that are used by government for raising money from financial market. It is issued as a promissory note with discount. The purpose of treasury bills is to fulfill the short-term money requirement of government. It has a maximum maturity period of 364 days. It is one type of money market instrument.

Q.2 Explain the various segments of the NSE.

The various segments of NSE are:

1. Capital Market Segment: This is the segment in which NSE deals with equity shares, debentures, preference shares and ETF's etc. Capital market provides a transparent and efficient platform for conducting trading in proper and fair way. It started in November 1995.

2. Wholesale Debt Market: This provides a platform for trading of debt securities or fixed income. This was operational from June 1994. Two parties are present in the debt market which are participants and the trading members. Trading members are brokers who are recognized by the NSE and participants are those who are looking for buying and selling securities.

Q.3 State any two reasons why investing public can expect a safe and fair deal in the stock market. (Point w.r.t safety of Transactions – Functions of the Stock Exchange).

Investing public can expect safe and fair deal in stock market due to these two reasons:

i. The function of the stock exchange is to protect the rights and interests of the investors. It should be guiding individual investors and educating them on the ways to deal in stock exchange.

ii. The function is to develop fair practices and codes of conduct by the intermediaries involved like merchant bankers, brokers.

Q.4 What is the common name for Beneficiary Owner Account, which is to be opened by the investors for trading in securities?

Beneficial owner is the type of person who enjoys the ownership benefits even when the property title is in name of someone else. In other words, any individual or individuals who have the power to vote or influence any transaction decisions such as company shares either directly or indirectly.

Q.5 Name any two details that need to be provided by the investor to the broker while filling a client registration form

The investor needs to provide following details to the broker at the time of filling a client registration form

i. Date of birth and address

ii. PAN Number

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Q.1 What are the functions of a financial market?

The functions of a financial market are as follows:

1. Financial markets acts as sources of savings for people which is profitable. The money will be utilized for some other purpose as one person's saving will become the capital of another. Money can multiply as it is being invested without being kept idle.

2. It is helpful in determining the price of securities with the forces of demand and supply. It helps investors to get proper price for the savings and investment by them.

3. It provides the liquidity in financial markets to the buyers and sellers of the securities. Investors can safely invest their money and convert the investment to money whenever it is deemed necessary or as per the requirements of the investor.

4. Financial markets make it easier for people to invest without the need of spending time and money. All the necessary information required for buying and selling of securities are present in the financial market so there is no requirement to spend money for gaining knowledge which reduces the transaction cost.

Q 2. “Money Market is essentially a Market for short term funds.” Discuss.

Money market is a market for funds that are short term in nature. The term of borrowing and lending in the money market or the maturity period is variable, it can range from one day to a year. Money market instruments act as important sources of working capital requirements for the business. These instruments are highly liquid in nature. The common types of money market instruments are treasury bills, commercial paper etc.

The features of Money market can be discussed as follows:

1. Due to large volume of transaction in the money market it is also known as wholesale market.

2. The participants of the money market are various financial entities such as investment institutions, mutual funds, public and private sector banks.

3. There is impersonal relationship between the participants in a money market.

Q.3 Distinguish between Capital Market and Money Market.

Basis of Comparison	Capital Market	Money Market
Time Span	Capital market is one part of the financial market in which borrowing and lending is of medium and long term. (more than a year)	Money market is that part of financial market where borrowing and lending is of short term or up to one year
Liquidity	Capital market instruments are less liquid	Money market instruments are highly liquid.
Returns Expected	Higher returns as investment is for longer duration	Low returns as investment is of short duration
Instruments	Capital market deals in instruments such as debentures, shares, preference shares and bonds etc.	Money markets deal in instruments such as bills of exchange, T-bill, promissory notes and call money etc.
Risk	As the instruments are less liquid in nature and long maturity	Money market securities are less risky due to short time period and sound financial position of the issuers.

Q.4 What are the functions of a Stock Exchange?

The functions of a stock exchange are as follows:

1. It provides a platform for trading of securities. A stock exchange offers easy conversion of securities to cash and also conversion of securities

2. It helps in establishing price for the assets of monetary nature which are traded. It is a common place for buyer and seller interactions and prices of securities are determined based on supply and demand.

3. There is safety and regulations in a stock market. Trade is conducted within a defined legal framework which

ensures fairness in transactions.

4. In a stock market there is continuous buying and selling of stocks which helps in enhancing capital formation and supports economic growth.

5. As share prices keep changing, it indicates the corresponding changes in economic conditions, an economic recession will see share prices fall while a boom in the market will contribute to price increase.

Q.5 What are the objectives of the SEBI?

The objectives of Securities and Exchange Board of India are as follows:

1. To regulate the stock exchange and securities market functioning. It looks to provide a secure place for raising funds by the issuer of securities.

2. It works on providing the investors with the guidelines which is related to investment. SEBI helps with reliable and adequate information about companies which helps companies in proper investment decisions.

3. To prevent malpractices that happen in securities trading. These malpractices included insider trading, non-adherence to companies act, violating rules and regulations etc. SEBI aims at preventing such malpractices so as to maintain investor trust.

4. To develop a code of conduct which involves all intermediaries such as merchant bankers, underwriters, brokers etc. SEBI provides a competitive and professional environment for all the intermediaries so that all transactions can be conducted by following fair practice.

Q.6 State the objectives of the NSE.

The following are the objectives of NSE or National Stock Exchange

1. It was aimed at setting up a national trading facility which deals with all types of securities. This system increases the confidence of the investors.

2. It provided an easy and equal access through a communication network which increased the liquidity of the securities.

3. It was looking to provide transparency and fairness in securities dealing by using electronic trading system.

4. It enabled faster settlements by having shorter settlement cycles.

5. It was looking to fulfill the benchmarks and international standards of stock exchange.

Q.7 Name the document prepared in the process of online trading of securities that is legally enforceable and helps to settle disputes/claims between the investor and the broker

Once the trade is conducted, the broker issues a Contract Note. The contract note contains number of shares that are sold and brought, price, date and time of the deal and the brokerage charges. It is an important document as it has legal validity and can be submitted as a proof during claim settlement or disputes which can arise between broker and the investor. The contract note contains the unique order code number that is assigned by stock exchange for each transaction.

Long Answer Questions NCERT Business Studies Solutions Class 12 Chapter 10

Q.1 Explain the various Money Market Instruments.

Money market is the market of trading for short term instruments. The instruments traded in money market have a maturity period of maximum one year.

i. T-Bills or Treasury Bills

Treasury bills are one type short term money market instrument which is used in the form of a promissory note that is used for borrowing by the government. It is one of the most commonly used money market instruments. It is auctioned by RBI on behalf of the central government. T-bills have a minimum unit of Rs 25,000 and in multiples. Three types of treasury bills are present which are of variable duration of 91, 182 and 364 days. T-bills get issued at discount and are redeemed at par. It is also known as zero coupon bonds and as it is issued by RBI, there is very negligible risk and returns are assured.

ii. Commercial Paper or CP

Commercial papers are one of the short-term instruments of money market that are unsecured. It is a type of promissory note that is transferrable and negotiable with maturity periods of maximum one year. These instruments were used by companies having creditworthiness in the market for raising short term funds. These are used as alternatives to borrowings from capital market or banks and offer interest lower than market. Commercial papers are used mainly for bridge financing.

iii. Call money

Call money instruments are the instrument of choice for interbank transactions. In this type of arrangement, the banks borrow a sum from each other in order to maintain any kind of shortfall in CRR. Call money have maturity of very short duration. Interest that is paid on call money is called as call rate. Call rates have a negative relationship with the money market instruments that means with rise in call rate the other money market instruments become cheaper which increases their demand.

iv. Certificate of Deposit (CDs)

Certificate of deposits are those money market instruments which are time deposits and are unsecured and negotiable in nature. These have a maturity period of maximum 5 years. Commercial bills are issued to individuals, companies and corporations by the commercial banks and other financial institutions. Higher deposits have higher interests. At times of tight liquidity situation these instruments are used to strengthen the credit.

v. Commercial Bill

Commercial bill is also known as bill of exchange which is used for financing the working capital requirements of the firm. Companies use commercial bills to finance credit sales.

Q.2 Explain the recent Capital Market reforms in India.

Following is the list of reforms in capital market of India

1. SEBI or The Securities and Exchange Board of India was established to act as a regulator for merchant banks, mutual funds and as promoter for stock exchange. It also functioned as the regulatory authority of activities related to the new issue of companies.

2. Various credit rating agencies like ICRA, CRISIL and CARE were setup which were given the task to determine the financial health of institutions and all such agencies which were dealing in stock market activities.

3. Growth of mutual funds has made users to invest in capital market.

4. Setting up of NSE and its recognition in 1994 which paved the way for trading of money market and capital market securities.

5. Setting up of investor education and protection fund in 2001 for guiding investors about capital market and protect them from any malpractices and fraud.

Q.3 Explain the objectives and functions of the SEBI

SEBI or the Securities and Exchange Board of India was established in the year 1988 in order to achieve the growth of securities market in an orderly manner. It also provided investor protection.

The objectives of Securities and Exchange Board of India are as follows:

1. To regulate the stock exchange and securities market functioning. It looks to provide a secure place for raising funds by the issuer of securities.

2. It works on providing the investors with the guidelines which is related to investment. SEBI helps with reliable and adequate information about companies which helps companies in proper investment decisions.

3. To prevent malpractices that happen in securities trading. These malpractices included insider trading, non-adherence to companies act, violating rules and regulations etc. SEBI aims at preventing such malpractices so as to maintain investor trust.

4. To develop a code of conduct which involves all intermediaries such as merchant bankers, underwriters, brokers etc. SEBI provides a competitive and professional environment for all the intermediaries so that all transactions can be conducted by following fair practice.

SEBI performs the following functions:

i. Regulatory Functions

SEBI performs the regulatory functions by registration of agents, sub-brokers, brokers and other players in the market. It also manages registration of mutual fund schemes. The regulation of SEBI also involves working of the merchant bankers, underwriters, stock brokers and other market intermediaries. It conducts stock exchange audits on a regular basis.

ii. Development Functions

SEBI provides training and development of the mediums involved in securities market in order to achieve a healthy growth of the security market. It also conducts research on important areas of market and publishes that research information which is helpful for investors and market players in making proper investment decisions. It also enabled trading via IPO, internet trading which has resulted in growth of the market.

iii. Protective Function

SEBI prevents trade practices which are fraudulent and unfair. It also prevents spread of information which are manipulative and misleading that can have a negative impact on securities market. It also keeps a check on insider trading where business information is leaked by an individual of the company which can impact business decisions. SEBI also acts as promoter of fair trade and protects investor interest. It also prevents manipulation of securities.

Q.4 India's largest domestic investor Life Insurance Corporation of India has once again come to government's rescue by subscribing 70% of Hindustan Aeronautics' `4,200-crore initial public offering.

a. Which market is being reflected in the above case?

b. State which method of floatation in the above identified market is being highlighted in the case? (Primary Market)

c. Explain any two other methods of floatation. (Private Placement, Offer through prospectus, offer for sale).

a. The above case shows the primary market. It is the market where securities are being issued for the first time.

b. The method of floatation that is applied is right issue of shares. It is a type of privilege that existing shareholders get at the time of issue of new shares as per the terms and conditions of the company.

c. Two other methods of floatation are:

i. Offer for Sale: In this method securities are issued to the intermediaries such as stock brokers or issue house instead of issuing to the public directly. In this example securities are sold to brokers at an agreed price who will be selling those shares to the public.

ii. Offer through prospectus: It is one of the most popular method of raising funds by public companies in the share market or the primary market. It involves issuing of prospectus through inviting of subscriptions. It makes an appeal to raise investment by publishing of ads in magazines and newspapers. The contents of the prospectus should be in accordance with the Companies Act, investor protection guidelines and SEBI disclosure.

Q.5 Lalita wants to buy shares of Akbar Enterprises, through her broker Kushvinder. She has a Demat Account and a bank account for cash transactions in the securities market. Discuss the subsequent steps involved in the screen-based trading for buying and selling of securities in this case.

The following steps are involved and is discussed in a sequential manner

1. Investor wishing to buy or sell any type of security has to approach a broker or sub broker and make an agreement. The investor needs to sign broker-client agreement and fill client registration form prior to start trading in securities. Also, some essential details need to be filled which include the following:

i. PAN number
ii. Date of birth and address
iii. Educational qualification and the occupation
iv. Residential status
v. Bank account details
vi. Depository account details

2. The next step is opening of Demat account or Beneficial owner account with a depository participant for transferring of securities in Demat form also a bank account needs to be opened for performing cash transactions in the market.

3. An order is placed by the investor with the broker for buying and selling shares. Information should be provided about the number of shares and price of shares that need to be bought. Broker issues a order confirmation slip to investor once the order is placed.

4. Broker goes online and connects with the stock exchange for matching share and the prices which are available for the share.

5. When shares can be either bought or sold as per the price mentioned by investor, the broker will be notified about that and order will be processed electronically. On transaction being done, broker will issue a trade confirmation slip for the investor.

6. Once the trade is executed a Contract note will be issued by the broker in 24 hours. The contract note contains details of the shares that are bought or sold, it's price, time and date of the deal and finally the brokerage charges. It is an important document which can be produced in court of law for settling disputes. Each transaction is assigned unique order code number by the stock exchange. This number is printed on the contract note.

7. After this step, the investor on receiving the contract note needs to pay for the shares that were bought and deliver shares that are sold. The broker will make payment or deliver the shares to the exchange. It is known as pay in day.

8. Cash gets paid or securities are delivered during the pay in day. This is done before T+2 day as deal gets settled and finalized on the T+2 day. Settlement follows the rolling settlement basis which is on T+2 day. T refers to the trade date.

9. Exchange delivers the shares or make payments to the broker on T+2 day. The broker has to make payment to the investor within 24 hours of pay out as already the payment is received by the broker from the exchange.

10. Delivery of shares by brokers can be in the form of Demat which is added directly to investor's account or in the case of securities purchase the amount is transferred electronically in the Demat account of the investor.