

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 the government to raise money from the financial market. It is issued as a promissory note with a discount. The purpose of treasury bills is to fulfil the short-term money requirement of the 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 as follows:

1. Capital Market Segment: This is the segment in which NSE deals with equity shares, debentures, preference shares and ETFs etc. The capital market provides a transparent and efficient platform for conducting trading in a proper and fair way. It started in November 1995.
2. Wholesale Debt Market: This provides a platform for trading debt securities or fixed income. This was operational from June 1994. Two parties are present in the debt market, the participants and the trading members. Trading members are brokers who are recognised by the NSE, and participants are those who are looking to buy and sell 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).

The investing public can expect a safe and fair deal in the stock market due to these two reasons, which are as follows:

- i. The function of the stock exchange is to protect the rights and interests of the investors. It should guide individual investors and educate them on the ways to deal in the stock exchange.
- ii. The function is to develop fair practices and codes of conduct by the intermediaries involved, like merchant bankers and brokers.

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

The beneficial owner is the type of person who enjoys the ownership benefits even when the property title is in the name of someone else. In other words, the beneficial owner is 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 the 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 act as sources of savings for people, which is profitable. The money will be utilised for some other purpose as one person's savings 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 prices for their savings and investments.
3. It provides 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 to spend time and money. All the necessary information required for buying and selling securities is present in the financial market, so there is no requirement to spend money to gain knowledge which reduces the transaction cost.

Q 2. "Money Market is essentially a market for short-term funds." Discuss.

The 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 the money market are as follows:

1. Due to the large volume of transactions in the money market, it is also known as the wholesale market.
2. The participants of the money market are various financial entities, such as investment institutions, mutual funds, and public and private sector banks.
3. There is an 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	The capital market is one part of the financial market in which borrowing and lending are medium and long-term. (more than a year)	The money market is that part of the financial market where borrowing and lending are 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 an investment are for a longer duration	Low returns as an investment are 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-bills, promissory notes and call money etc.

Risk	Capital market securities are riskier due to the long time period	Money market securities are less risky due to the short time period and sound financial position of the issuers
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Q.4 What are the functions of a Stock Exchange?

The functions of a stock exchange are as follows:

1. It provides a platform to trade securities. A stock exchange offers easy conversion of securities to cash and also conversion of securities
2. It helps in establishing prices 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 are safety regulations in the 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 a price increase.

Q.5 What are the objectives of the SEBI?

The objectives of the Securities and Exchange Board of India (SEBI) are as follows:

1. Its main objective is 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 are related to investment. SEBI helps with reliable and adequate information about companies which helps companies in proper investment decisions.

3. It helps to prevent malpractices that happen in securities trading. These malpractices included insider trading, non-adherence to the company's act, violating rules and regulations etc. SEBI aims to prevent 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 practices.

Q.6 State the objectives of the NSE.

The following are the objectives of the National Stock Exchange (NSE):

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 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 an electronic trading system.
4. It enabled faster settlements by having shorter settlement cycles.
5. It was looking to fulfil the benchmarks and international standards of the 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 the number of shares that are sold and bought, the 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 proof during claim settlement or disputes which can arise between the broker and the investor. The contract note contains the unique order code number that is assigned by the stock exchange for each transaction.

Long Answer Questions NCERT Business Studies Solutions Class 12 Chapter 10

Q.1 Explain the various Money Market Instruments.

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

i. T-Bills or Treasury Bills

Treasury bills are one type of 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 are 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 a discount and are redeemed at par. It is also known as zero coupon bonds, and as it is issued by RBI, there is a very negligible risk, and returns are assured.

ii. Commercial Paper (CP)

Commercial papers are one of the short-term instruments of the money market that are unsecured. It is a type of promissory note that is transferrable and negotiable with maturity periods of a maximum of 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 the capital market or banks and offer interest lower than the 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 has a 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 the rise in call rates, the other money market instruments become cheaper, which increases their demand.

iv. Certificate of Deposit (CD)

Certificates 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 commercial banks and other financial institutions. Higher deposits have higher interest. At times of tight liquidity situation, these instruments are used to strengthen the credit.

v. Commercial Bill

A commercial bill, also known as a bill of exchange, 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 the capital market of India:

1. The Securities and Exchange Board of India (SEBI) was established to act as a regulator for merchant banks and mutual funds and as a promoter of the 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 set up, which were given the task of determining the financial health of institutions and all such agencies which were dealing in stock market activities.
3. Growth of mutual funds has made users invest in the 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 the capital market and protecting them from any malpractices and fraud.

Q.3 Explain the objectives and functions of the SEBI

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

The objectives of the 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 are related to investment. SEBI helps with reliable and adequate information about companies which helps companies in proper investment decisions.

3. It helps to prevent malpractices that happen in securities trading. These malpractices included insider trading, non-adherence to the companies act, violating rules and regulations etc. SEBI aims to prevent 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 practices.

SEBI performs the following functions:

i. Regulatory Functions

SEBI performs regulatory functions by registration of agents, sub-brokers, brokers and other players in the market. It also manages the registration of mutual fund schemes. The regulation of SEBI also involves the working of 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 the securities market in order to achieve healthy growth of the security market. It also conducts research on important areas of the 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 and internet trading, which has resulted in the growth of the market.

iii. Protective Function

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

Q.4 India's largest domestic investor Life Insurance Corporation of India, has once again come to the 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 the right issue of shares. It is a type of privilege that existing shareholders get at the time of the issue of new shares as per the terms and conditions of the company.

c. Two other methods of floatation are as follows:

i. Offer for Sale: In this method, securities are issued to the intermediaries, such as stock brokers or issuing houses, 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 methods of raising funds by public companies in the share market or the primary market. It involves issuing of prospectus through inviting subscriptions. It makes an appeal to raise investment by publishing 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 are 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 the broker-client agreement and fill the client registration form prior to starting 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 the opening of a Demat account or a Beneficial owner account with a depository participant for transferring securities in Demat form, and 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 the price of shares that need to be bought. The broker issues an order confirmation slip to the investor once the order is placed.
4. Broker goes online and connects with the stock exchange for matching shares and the prices which are available for the share.
5. When shares can be either bought or sold as per the price mentioned by the investor, the broker will be notified about that, and the order will be processed electronically. On the transaction being done, the 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, their price, the time and date of the deal and finally, the brokerage charges. It is an important document which can be produced in a court of law for settling disputes. Each transaction is assigned a 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 the shares that are sold. The broker will make the 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 the deal gets settled and finalised on the T+2 day. The settlement follows the rolling settlement basis, which is on T+2 day. T refers to the trade date.
9. Exchange delivers the shares or makes payments to the broker on T+2 day. The broker has to make payment to the investor within 24 hours of payout, as already the payment is received by the broker from the exchange.
10. Delivery of shares by brokers can be in the form of a Demat, which is added directly to the investor's account or in the case of securities purchase, the amount is transferred electronically to the Demat account of the investor.

