

FINANCIAL MARKETS

HOTS

1. 'This method of new issues give pre-emptive right to the existing shareholders over such securities.' Which method of floatation is highlighted in the given statement?
OR
Hari has 200 shares of Reliance Industries. Reliance comes out with a fresh issue of shares and Hari received an offer to buy 1 more share of Reliance for every two shares held by him. Discuss the type of issue described.
or
Fabmart Pvt Ltd. wants to raise Rs 200 crores through issue of equity shares. Before offering the new shares to outsiders, company is required to offer them first to its existing shareholders. Which method of floating new issue is indicated in the given case?
2. "SEBI is the watchdog of stock market". Comment.
3. Mr. Ramesh and Mr. Harish are promoting a new company. They are totally confused about how to raise funds from the market. Ramesh is interested in new issue of shares through issue of prospectus. However, Harish is interested in Right issue. As a financial advisor, advise whose method is appropriate in the given circumstances.
4. Due to various malpractices and exploitation of investors in the securities market, the Indian govt established a separate regulatory body to protect the investors and to develop and regulate the securities market.
 - a. Identify the regulatory body set by the government.
 - b. Discuss its various objectives.
5. "Primary Market directly contributes to capital formation, whereas, secondary market does so indirectly." Do you agree?
6. The directors of a company want to modernize its plant and machinery by making a public issue of shares. They wish to approach stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach stock exchange or a consultant for new public issue of shares and why? Also advise about the different methods which the company may adopt for the new public issue of shares.

7. Why do money market instruments are more liquid as compared to capital market instruments?
8. "All securities can be traded in the stock exchange." Do you agree? Give reason in support of your answer.
9. " Primary Market directly contributes to capital formation, whereas, secondary market does so indirectly." Do you agree?

Identify , out of money market, capital market , primary and secondary market, which one is highlighted in the following statements:

- a. This market deals in medium and long term securities.
- b. Instruments of this market are more liquid due to presence of DFHI.
- c. It is also known as stock exchange.
- d. This market requires less investment as value of securities is generally low.
- e. Instruments in this market generally yield less returns due to short duration.
- f. It is also known as new issue market.

VERY SHORT ANSWER TYPE QUESTIONS:

10. "Financial market reduces the cost of transactions." Comment.
11. Why are treasury bills considered as negotiable instruments?
12. Which bearer document is issued by a bank against deposits kept by the companies and institutions for a short period?
13. Who determines the prices of securities to be issued fresh in the primary market?
14. "Both primary and secondary market deals with issue of new securities." Comment.
15. Mention one common feature of capital and money market.
16. Name the two segments of financial market.
17. What is an ideal capital market?
18. Money market has no physical location. Then, how is trading done?
19. Why are treasury bills known as 'Zero Coupon Bonds'?
20. What is the minimum amount of a treasury bill?
21. What is the purpose of issuing commercial paper by large and creditworthy companies?
22. What is the maturity period of a commercial paper?
23. Name the money market instrument used as alternative to bank borrowing for large companies.

24. Which method of short term finance do the banks adopt to maintain the Cash Reserve Ratio?
25. What are the two segments of capital market?
26. What is the other name of primary market?
27. Name the most popular method of raising funds by companies is in the primary market.
28. Name the kind of company which can raise funds in the primary market.
29. What is the latest trading system in stock exchange?
30. How do primary and secondary markets promote capital formation?

VALUE BASED QUESTIONS

31. Sakshi Ltd a well known real estate company has managed to carve a niche for itself in this sector. Recently it was revealed that the directors of the company have used price rigging and have utilized price sensitive information for their own personal interest. Adequate public disclosures were also not made. SEBI is considering action against these directors. Identify the values that the company have adhered to in order to gain the trust of its investors. Or state the values Sakshi Ltd. should have adhered to prevent loss of trust of its investors.
32. The Trading Procedure on Stock Exchange has been replaced by on line screen based electronic trading system, further there is an introduction of dematerialization of Securities and demutualization in the new system. This has increased the equity cult among the common man.

Mention the values that you think have enhanced the equity cult in the society.
33. XY Ltd, is a steel manufacturing company with head quarters in Mumbai. The sector is likely to grow with the new introduction of changes in the policy of FDI. The company wanting to expand decides to raise funds by going public without seeking prior approval of SEBI. It issues 2,00,000 equity shares @ Rs 900(at premium of Rs 800) without the sanction of SEBI. SEBI decides to take an appropriate action against the company.

In order to raise funds, the company overlooked certain necessary values. Mention them.
34. A Public Ltd. Co. achieved the minimum subscriptions by private placement. Whose interest has been ignored here.?