

B.V.V.Sangha
Basaveshwar Commerce College, Bagalkot
Two Marks Questions and Answers
Indian Financial Market
Prof.S.M.Khot

1. What is Indian Financial system?

The financial system enables lenders and borrowers to exchange funds. India has a financial system that is controlled by independent regulators in the sectors of insurance, banking, capital markets and various services sectors.

2. What are the Features of IFS?

1. It plays a vital role in economic development of a country.
2. It encourages both savings and investment.
3. It links savers and investors.
4. It helps in capital formation.

3. What are the components/ constituents of Indian financial system?

1. Financial Institutions
2. Financial Markets
3. Financial Instruments/ Assets/ Securities
4. Financial Services.

4. What you Mean by financial institutions?

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities (individual, business, government) seeking advice on various issue ranging from restructuring to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets or elsewhere.

5. What are the types of financial institutions?

- A. Banking Institutions
- B. Non - Banking Financial Institutions

6. What is Indigenous Bankers

Indigenous Bankers are private firms or individual who operate as banks and as such both receive deposits and given loans. Like bankers, they also financial intermediaries. They should be distinguished professional money lenders whose primary business is not banking and money lending. The indigenous banks are trading with the Hundies, Commercial Paper

7. Write the Meaning of Money Lenders

Money lenders depend entirely to on their one funds. Money Lenders may be rural or urban, professional or non-professional. They include large number of farmer, merchants, traders. Their operations are entirely unregulated. They charge very high rate of interest.

8. Give Examples of Development Finance Institutions.

India Level

IDBT, ICICI, IFCI, IBI, IRDC

State Level

The State Finance Corporations (SFCs), State Industrial Development Corporations (SIDCs) at the state level. Agriculture Development Finance Institutions as NABARD ,LDBS

9. What is Financial Market?

It is through financial markets and institutions that the financial system of an economic works. Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bank deposits, bills, bonds etc.

10. What are the Functions of financial markets?

- (i) To facilitate creation and allocation of credit and liquidity
- (ii) To serve as intermediaries for mobilization of savings.
- (iii) To assist the process of balanced economic growth.
- (iv) To provide financial convenience.

11. What are the Types of Financial Market?

Capital Market
Money Market

12. What is Capital Market?

The capital market is a market for financial assets which have a long or indefinite maturity. Generally, it deals with long term securities which have a maturity period of above one year.

13. Write types of Capital Market

- (I) Industrial securities market
- (II) Government securities market and
- (III) Long term loans market

14. What is Primary market?

Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue market. The primary market deals with those securities which are issued to the public for the first time. In the primary market, borrowers exchange new financial securities for long term funds. Thus, primary market facilitates capital formation. There are three ways by which a company may raise capital in a primary market.

15. What is Secondary Market?

Secondary market is a market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. Generally, such securities are quoted the Stock Exchange and it provides a continuous and regular market to buying and selling of securities. This market consists of all stock exchanges recognized by the Government of India. The stock exchanges in India are regulated under the Securities Contracts (Regulation) Act 1956. The Bombay Stock Exchange is the principal stock exchange in India which sets the tone of the other stock markets.

16. What is Government Securities Market?

It is otherwise called Gilt - Edged securities market. It is a market where Government securities are traded. In India there are many kinds of Government Securities - short term and long term. Long term securities are traded in this market while short term securities are traded in the money market. Securities issued by the Central Government, State Governments, Semi Government authorities like City Corporations, Port Trusts etc. Improvement Trusts, State Electricity Boards, All India and State level financial institutions and public sector enterprises are dealt in this market.

17. Write Components of Long term Loan market

- (1) Term loans market
- (2) Mortgages market
- (3) Financial Guarantees market

18. What is Term Loan Market?

In India, many industrial financing institutions have been created by the Government both at the national and regional levels to supply long term and medium term loans to corporate customers directly as well as indirectly. These development banks dominate the industrial finance in India. Institutions like IDBI, IFCI, ICICI, and other financial corporation's come under this category.

19. What is Mortgages Market?

A mortgage loan is a loan against the security of immovable property like real estate. The transfer of interest in a specific immovable property to secure a loan is called mortgage. This mortgage may be equitable mortgage or legal one.

20. What is Money Market?

Money market is a market for dealing with financial assets and securities which have a maturity period of up to one year. In other words, it is a market for purely short term funds.

21. What are the Components of Money Market?

- (i) Call money market
- (ii) Commercial bills market
- (iii) Treasury bills market
- (iv) Short term loan market

22. What is Call Money Market?

The call money market is a market for extremely short period loans say one day to fourteen days. So, it is highly liquid. The loans are repayable on demand at the option of either the lender or the borrower. In India, call money markets are associated with the presence of stock exchanges and hence, they are located in major industrial towns like Bombay, Calcutta, Madras, Delhi, Ahmedabad etc. The special feature of this market is that the interest rate varies from day to day and even from hour to hour and Centre to Centre. It is very sensitive to changes in demand and supply of call loans.

23. What is Commercial Bill Market?

It is a market for Bills of Exchange arising out of genuine trade transactions. In the case of credit sale, the seller may draw a bill of exchange on the buyer. The buyer accepts such a bill promising to pay at a later date specified in the bill. The seller need not wait until the due date of the bill. Instead, he can get immediate payment by discounting the bill.

24. What is Short term Loan market?

It is a market where short - term loans are given to corporate customers for meeting their working capital requirements. Commercial banks play a significant role in this market. Commercial banks provide short term loans in the form of cash credit and overdraft Over draft facility is mainly given to business people whereas cash credit is given to industrialists. Overdraft is purely a temporary accommodation and it is given in the current account itself. But cash credit is for a period of one year and it is sanctioned in a separate account.

25. What are the Functions Of capital market?

- 1) Helps in capital formation
- 2) Act as link between savers and investors
- 3) Helps in increasing national income
- 4) Facilitates buying and selling.

26. What is Primary Market or New Issue Market?

Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue market. The primary market deals with those securities which are issued to the public for the first time. In the primary market, borrowers exchange new financial securities for long term funds. Thus, primary market facilitates capital formation. There are three ways by which a company may raise capital in a primary market.

27. Write Features of Primary market

- (i) This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM).
- (ii) in a primary issue, the securities are issued by the company directly to investors.
- (iii) The company receives the money and issues new security certificates to the investors
- (iv) Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.

28. What is Secondary Market?

Secondary market is a market for secondary sale of securities. In other words, securities which have already passed through the new issue market are traded in this market. Generally, such securities are quoted the Stock Exchange and it provides a continuous and regular market to buying and selling of securities. This market consists of all stock exchanges recognized by the Government of India. The stock exchanges in India are regulated under the Securities Contracts (Regulation) Act 1956. The Bombay Stock Exchange is the principal stock exchange in India which sets the tone of the other stock markets.

29. Write the functions of Stock exchange

- a. Ensure Liquidity of Capital.
- b. Continuous Market for Securities.
- c. Mobilizing Surplus Savings
- d. Helpful in Raising New Capital

30. What is Mutual Fund?

To state in simple words, a mutual fund collects the savings from small investors, invest them in Government and other corporate securities and earn income through interest and dividends, besides capital gain.

31. Write importance of Mutual fund

1. Diversification
2. Liquidity
3. Reduced risk
4. Tax advantage

32. What are the Types of Mutual fund?

Close - ended Funds
Open - ended Funds
Income Funds
Pure Growth Funds

33. What are the Features of Open Ended Fund?

- (i) The period and/ or the target amount of the fund is definite and fixed beforehand.
- (ii) Once the period is over and/ or the target is reached, the door is closed for the investors. They cannot purchase any more units.
- (iii) These units are publicly traded through stock exchange and generally, there is no repurchase facility by the fund.
- (iv) The main objective of this fund is capital appreciation.

34. What is Money Market Mutual fund?

Money - Market Mutual Funds (MMMFs): These funds are basically open ended mutual Funds and as such they have all the features of the Open ended Fund. But, they invest in

highly liquid and safe securities like commercial paper, banker ' s acceptances, certificates of deposits, Treasury bills etc. These instruments are called money market instruments. They take the place of shares, debentures and bonds in a capital market. They pay money market rates of interest.

35. Mention Institutions Involved in mutual Fund

Debt Funds Aditya Birla Sun Life Savings Fund

Aditya Birla Sun Life Corporate Bond Fund

Equity Funds Aditya Birla Sun Life Tax Relief 96
Aditya Birla Sun Life Frontline Equity Fund

Hybrid Funds Aditya Birla Sun Life Equity Hybrid '95 Fund
Aditya Birla Sun Life Balanced Advantage Fund

Prof.S.M.KRISHNA