Marking Scheme
Class X
INTRODUCTION TO FINANCIAL MARKETS (405)
(2018-19)
Section A

Part I

1. What is Investment? **1**

Ans. The money you earn is partly spent and the rest saved for meeting future expenses. Instead of keeping the savings idle you may like to use savings in order to get return on it in the future. This is called Investment.

2. What do you mean by Securities? **1**

Ans. The definition of 'Securities' as per the Securities Contracts Regulation Act (SCRA), 1956, includes instruments such as shares, bonds, scrips, stocks or other marketable securities etc.

3. What is the face value of share and Debentures? **1**

Ans. For an equity share, the face value is usually a very small amount (Rs. 5, Rs. 10). For a debt security, face value is Rs. 100.

4. What is meant by secondary market? **1**

Ans. Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market .

5. What is Demutualization of stock exchanges? **1**

Ans. Demutualization refers to the legal structure of an exchange whereby the ownership, the management and the trading rights at the exchange are segregated from one another.

6. What is Screen Based Trading? **1**

Ans. NSE introduced a nationwide, on-line, fully-automated screen based trading system (SBTS) where a member can punch into the computer the quantities of a security and the price at which he would like to transact.

7. What is an 'Option Premium'? **1**

Ans. At the time of buying an option contract, the buyer has to pay premium. The premium is the price for acquiring the right to buy or sell.

8. What is Commodity derivatives market? **1**

Ans. Commodity derivatives market trade contracts for which the underlying asset is commodity. It can be an agricultural commodity like wheat, soybeans, rapeseed, cotton, etc or precious metals like gold, silver, etc.

9. Who regulates Mutual Funds in India? **1**

Ans. The Securities Exchange Board of India (SEBI) is the regulatory body for all the mutual funds in India.

10.What are Corporate Actions? **1**

Ans. A company announces a corporate action, it is initiating a process that will bring actual change to its securities either in terms of number of shares increasing in the hands on the shareholders etc.

11.What is Simple Interest? **1**

Ans. Simple Interest is the interest paid only on the principal amount borrowed. No interest is paid on the interest accrued during the term of the loan.

12.What is liquidity ratio? **1**

Ans. Liquidity refers to the ability of a firm to meet its financial obligations in the short-term like current ratio.

Part II

13.What care should one take while investing? **½ *4= 2**

Ans. Before making any investment, one must ensure to:

1. obtain written documents explaining the investment
2. read and understand such documents
3. verify the legitimacy of the investment
4. find out the costs and benefits associated with the investment

14.Why does Securities Market need Regulators? **2**

Ans. The absence of conditions of perfect competition in the securities market makes the role of the Regulator extremely important. The regulator ensures that the market participants behave in a desired manner so that securities market continues to be a major source of finance for corporate and government and the interest of investors are protected.

15.What are the benefits of participation in a depository? **½ *4= 2**

Ans. The benefits of participation in a depository are:

- Immediate transfer of securities
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, etc.
- Reduction in paperwork involved in transfer of securities

16. What is Buyback of Shares? **2**

Ans. A buyback can be seen as a method for company to invest in itself by buying shares from other investors in the market. Buybacks reduce the number of shares outstanding in the market.

a) Existing shareholders on a proportionate basis through the offer document.

b) Open market through stock exchanges using book building process.

17. Define current ratio with example? **(1+1)** **2**

Ans. The current ratio measures the ability of the firm to meet its current liabilities from the current assets. Higher the current ratio, greater the short-term solvency (i.e. larger is the amount of rupees available per rupee of liability).

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

(Give suitable example)

18. What is Pay-in and Pay-out? **2**

Ans. Pay-in day is the day when the securities sold are delivered to the exchange by the sellers and funds for the securities purchased are made available to the exchange by the buyers.

Pay-out day is the day the securities purchased are delivered to the buyers and the funds for the securities sold are given to the sellers by the exchange.

19. What is an Investor Protection Fund? **2**

Ans. Investor Protection Fund (IPF) is maintained by NSE to make good investor claims, which may arise out of non-settlement of obligations by the trading member, who has been declared a defaulter, in respect of trades executed on the Exchange. The maximum amount of claim payable from the IPF to the investor (where the trading member through whom the investor has dealt is declared a defaulter) is Rs. 15 lakh.

Part III

20. What is SEBI and what is its role? **1+2=** **3**

Ans. The Securities and Exchange Board of India (SEBI) is the regulatory authority in India established under Section 3 of SEBI Act, 1992. SEBI Act, 1992 provides for establishment of Securities and Exchange Board of India (SEBI) with statutory powers for (a) protecting the interests of investors in securities (b) promoting the development of the securities market and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI has been obligated to perform the aforesaid functions by such measures as it thinks fit. In particular, it has powers for:

21.What are the different kinds of issues in primary market? 1*3 3

Ans. The classification of issues is illustrated below:

Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities.

A follow on public offering (Further Issue) is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document.

Rights Issue is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date. The rights are normally offered in a particular ratio to the number of securities held prior to the issue. This route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders.

22.What are Types of Derivatives? 1*3 3

Ans. Forwards: A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future at today's pre-agreed price.

Futures: A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price.

Options: An Option is a contract which gives the right, but not an obligation, to buy or sell the underlying at a stated date and at a stated price. Options are of two types - **Calls** and **Puts** options.

23.How is a depository similar to a bank? 1*3 3

Ans. A Depository can be compared with a bank, which holds the funds for depositors. An analogy between a bank and a depository may be drawn as follows:

BANK	DEPOSITORY
Holds funds in an account	Hold securities in an account

Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the account holder.
Facilitates transfers without having to handle money	Facilitates transfers of ownership without having to handle securities.

24. What is a Custodian? Write its functions? 1*3 3

Ans. A Custodian is basically an organization, which helps register and safeguard the securities of its clients.

Besides safeguarding securities, a custodian also keeps track of corporate actions on behalf of its clients:

- Maintaining a client's securities account
- Collecting the benefits or rights accruing to the client in respect of securities
- Keeping the client informed of the actions taken or to be taken by the issue of securities, having a bearing on the benefits or rights accruing to the client.

25. Why do companies announce Stock Split? Write the procedure? 3

Ans. If the value of the stock doesn't change, what motivates a company to split its stock? Though there are no theoretical reasons in financial literature to indicate the need for a stock split, generally, there are mainly two important reasons. As the price of a security gets higher and higher, some investors may feel the price is too high for them to buy, or small investors may feel it is unaffordable. Splitting the stock brings the share price down to a more "attractive" level. In our earlier example to buy 1 share of company ABC you need Rs. 40 pre-split, but after the stock split the same number of shares can be bought for Rs.10, making it attractive for more investors to buy the share. This leads us to the second reason. Splitting a stock may lead to increase in the stock's *liquidity,* since more investors are able to afford the share and the total outstanding shares of the company have also increased in the market

26. Give brief of the following? 1*3 3
a. Cut off price b. Book Building c. Market Capitalization

Ans. a. Cut off price: In a Book building issue, the issuer is required to indicate either the price band or a floor price in the prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is called "Cut-Off Price".

b. **Book Building:** Book Building is basically a process used in IPOs for efficient price discovery. It is a mechanism where, during the period for which the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date.

c. **Market Capitalization :** The market value of a quoted company, which is calculated by multiplying its current share price (market price) by the number of shares in issue is called as market capitalization. E.g. Company A has 120 million shares in issue. The current market price is Rs. 100. The market capitalization of company A is Rs. 12000 million.

Section –B

27.What is a Contract Note? What details are required to be mentioned on the contract note issued by the stock broker? 1*5 5

Ans. Contract Note is a confirmation of trades done on a particular day on behalf of the client by a trading member. It imposes a legally enforceable relationship between the client and the trading member with respect to purchase/sale and settlement of trades. It also helps to settle disputes/claims between the investor and the trading member. It is a prerequisite for filing a complaint or arbitration proceeding against the trading member in case of a dispute. A valid contract note should be in the prescribed form, contain the details of trades, stamped with requisite value and duly signed by the authorized signatory. Contract notes are kept in duplicate, the trading member and the client should keep one copy each. After verifying the details contained therein, the client keeps one copy and returns the second copy to the trading member duly acknowledged by him.

Details are required to be mentioned on the contract note issued by the stock broker

A broker has to issue a contract note to clients for all transactions in the form specified by the stock exchange. The contract note inter-alia should have following:

- Name, address and SEBI Registration number of the Member broker.
- Name of partner/proprietor/Authorized Signatory.
- Dealing Office Address/Tel. No. /Fax no., Code number of the member given by the Exchange.
- Contract number, date of issue of contract note, settlement number and time period for settlement.
- Constituent (Client) name/Code Number.

28.What precautions must one take before investing in the stock markets?1*5= 5

Ans. Here are some useful pointers to bear in mind before you invest in the markets:

- Make sure your broker is registered with SEBI and the exchanges and do not deal with unregistered intermediaries.

- Ensure that you receive contract notes for all your transactions from your broker within one working day of execution of the trades.

- All investments carry risk of some kind. Investors should always know the risk that they are taking and invest in a manner that matches their risk tolerance.

- Do not be misled by market rumours, during advertisement or 'hot tips' of the day.
- Take informed decisions by studying the fundamentals of the company. Find out the business the company is into, its future prospects, quality of management, past track record etc Sources of knowing about a company are through annual reports, economic magazines, and databases available with vendors or your financial advisor.

29.What are the benefits of investing in Mutual Funds? 1*5= 5

Ans. There are several benefits from investing in a Mutual Fund:

Small investments: Mutual funds help you to reap the benefit of returns by a portfolio spread across a wide spectrum of companies with small investments.

Professional Fund Management: Professionals having considerable expertise, experience and resources manage the pool of money collected by a mutual fund. They thoroughly analyze the markets and economy to pick good investment opportunities.

Spreading Risk: An investor with limited funds might be able to invest in only one or two stocks/bonds, thus increasing his or her risk. However, a mutual fund will spread its risk by investing a number of sound stocks or bonds. A fund normally invests in companies across a wide range of industries, so the risk is diversified.

Transparency: Mutual Funds regularly provide investors with information on the value of their investments. Mutual Funds also provide complete portfolio disclosure of the investments made by various schemes and also the proportion invested in each asset type.

Choice: The large amount of Mutual Funds offer the investor a wide variety to choose from. An investor can pick up a scheme depending upon his risk/return profile.

Regulations: All the mutual funds are registered with SEBI and they function within the provisions of strict regulation designed to protect the interests of the investor.

30.What are the rights that are available to a Mutual Fund holder in India? 1*5=5

Ans. As per SEBI Regulations on Mutual Funds, an investor is entitled to:

1. Receive Unit certificates or statements of accounts confirming your title within 6 weeks from the date your request for a unit certificate is received by the Mutual Fund.
2. Receive information about the investment policies, investment objectives, financial position and general affairs of the scheme.
3. Receive dividend within 30 days of their declaration and receive the redemption or repurchase proceeds within 10 days from the date of redemption or repurchase.
4. The trustees shall be bound to make such disclosures to the unit holders as are essential in order to keep them informed about any information, which may have an adverse bearing on their investments.
5. 75% of the unit holders with the prior approval of SEBI can terminate the AMC of the fund.

31. What do terms like authorized, issued, subscribed, called up and paid up capital mean? **1*5** **5**

Ans. Authorized capital is the maximum capital that a company is authorized to rise.

1. **Issued capital** is that part of the authorized capital which is offered by the company for being subscribed by members of the public or anybody.

2. **Subscribed capital** is that part of the issued capital which is subscribed (accepted) by the public.

3. **Called up capital** is a part of subscribed capital which has been called up by the company for payment. For example, if 10,000 shares of Rs. 100 each have been subscribed by the public and of which Rs. 50 per share has been called up. Then the subscribed capital of the Company works out to Rs. 1, 00,000 of which the called up capital of the Company is Rs. 50, 0000.

4. **Paid Up capital** refers to that part of the called up capital which has been actually paid by the shareholders. Some of the shareholders might have defaulted in paying the called up money. Such defaulted amount is called as arrears. From the called up capital, calls in arrears is deducted to obtain the paid up capital.