

## ANSWER KEYS

### 1.(a) Fill in the Blanks (Any Eight)

(8)

1. Financial
2. SEBI
3. MCX
4. ADRs
5. T+2
6. AMFI
7. Open
8. Stock
9. IBRD
10. RBI

### (b) State whether the following statements are true or false (any 7)

(7)

1. True
2. False
3. False
4. True
5. True
6. True
7. False
8. True
9. False
10. True

### 2.A. Constituents of Financial system:

Financial markets,  
Financial services,  
Financial regulators,  
Financial Instruments.

### B. Role of the financial system in the economy

Platform for providing finance  
Mobilising of savings  
Transformation of savings into capital  
Risk Distribution  
Economic Development

OR

### 2.C. Note on Financial Institutions: Meaning, Definition Role Importance etc

### D. Insurance Companies are important financial intermediary:

Provide financial intermediation  
Risk cover  
Protect from losses  
Growth of economy

### **3.A. Functions of Financial Markets:**

1. Mobilising savings, facilitating investments
2. Transfer and management of risk
3. Price discovery
4. Improved Liquidity
5. Lower transaction costs

### **B. Advantages and disadvantages of Capital Market**

Advantages: availability of capital, investment avenue, brings borrowers & lenders together, Easy availability of capital & risk management tools, counter party risks mitigated, tap foreign funds  
Disadvantages: several investment & saving avenues – confusing, weakness in markets poses serious threat to financial system, information asymmetry, risk of default & huge price volatility, open to currency fluctuation

**OR**

### **3.C. Modes of secondary market trades**

Stock Exchange  
Over the counter exchange

### **D. Features of derivative markets:**

Fixed expiration date  
Risky market  
High leverage & small investment  
Physical delivery of assets not mandatory  
Contracts settled in cash

### **4A. Functions of financial regulators:**

Laying down rules and guidelines  
Monitoring and evaluation of the financial system and its constituents  
Manage financial crises  
Maintain Market confidence  
Identify and Reduce financial crime

### **B. Monetary Functions of RBI:**

Formulating and implementing the monetary policy  
Credit controller  
Banker's Bank  
Issue of Currency notes  
Custodian of Foreign Exchange Reserves  
Banker to the Government

**OR**

### **4.C.Functions of PFRDA:**

Approve and regulate the National Pension System  
Approving terms and conditions & norms for management of pension funds  
Registering and regulating intermediaries

Protecting the interests of the subscribers  
Educating subscribers and general public

**D. Functions of SEBI:**

Regulates financial system constituents, intermediaries/services like stock exchanges, credit rating agencies, mutual funds etc  
Registration, inspection audit, enquiries and promotion  
Prohibition of insider trading  
Promoting investor education  
Training of intermediaries  
Promotion of fair practices

**5.A. Types of Mutual Funds**

Money market funds  
Fixed income funds.  
Equity funds.  
Balanced funds.  
Index funds.

**B. Types of Equity Instruments**

Ordinary Equity Shares  
Differential voting right shares  
Preference shares  
GDRs/ADRs  
OR

**5. Short Note on :**

1. Money Market
2. Stock Exchange
3. IRDA
4. Credit Rating Agencies
5. Venture Capital