

**B.A. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2014****Fifth Semester**

B.A. – Economics

Core Course—ECONOMICS OF FINANCIAL MARKETS

Time : Three Hours

Maximum Weight : 25

*Answer may be written in either in English or in Malayalam.***Part A***Answer all questions.**Objective type questions (In bunches of 4).***BUNCH I**

Choose the correct answer :

1. Financial markets are used for trading :
  - (a) both real assets and financial assets.
  - (b) the goods and services produced by a firm.
  - (c) securities.
  - (d) the raw materials used in manufacturing.
2. With a \_\_\_\_\_ transaction, no new funds are generated for the original issuer of the security.
  - (a) capital market.
  - (b) secondary market.
  - (c) indirect.
  - (d) direct.
3. Money market securities are issued by various entities for the purpose of :
  - (a) raising short-term funding.
  - (b) raising long-term funding.
  - (c) paying taxes.
  - (d) bringing in new ownership.
4. A rising stock market index due to higher share prices :
  - (a) decreases the amount of funds that business firms can raise by selling newly issued stock.
  - (b) increases people's wealth, but is unlikely to increase their willingness to spend.
  - (c) increases people's wealth and as a result may increase their willingness to spend.
  - (d) increase the amount of funds that-business firms can raise by selling newly issued stock.

**BUNCH II**

5. Transaction costs :
  - (a) are the time and money spent carrying out financial transactions.
  - (b) are increased with financial intermediaries.

**Turn over**

- (c) are the costs of clearing checks.
- (d) are required by law.
6. Financial intermediaries (banks, for instance) provide small lender-savers all of the following advantages except:
- (a) lower risk. (b) a higher return.
- (c) greater liquidity. (d) lower transaction costs.
7. The difference between equities and debt securities is :
- (a) equities are short term and debt securities are long term.
- (b) holders of equity securities get paid before holders of debt securities in the event of a bankruptcy.
- (c) equities pay interest and debt securities pay dividends.
- (d) equities represent ownership in a corporation and debt represents a contractual liability of the corporation.
8. The first time a security is sold it is in the \_\_\_\_\_ market; subsequent trading of the security is in the \_\_\_\_\_ market.
- (a) money ; capital. (b) capital ; money.
- (c) banking ; secondary. (d) primary; secondary.

### BUNCH III

9. All but one of the following is known as a financial market ?
- (a) foreign exchange market. (b) pension fund market.
- (c) money market. (d) fixed-income market.
10. \_\_\_\_\_ are not a part of the Scheduled Banking structure in India.
- (a) public sector banks. (b) private sector banks.
- (c) money lenders. (d) regional rural banks.
11. In capital markets, the term arbitrage is used in reference to the :
- (a) sale of securities to reduce the loss on purchase.
- (b) purchase of securities to cover the sale.
- (c) variation in different markets.
- (d) concomitant sale and purchase of securities to make profits from price.
12. Which of the following is associated with the savings of salaried people.
- (a) mutual fund. (b) venture capital fund.
- (c) provident fund. (d) hedge fund.

## BUNCH IV

13. while corporations provide shareholders returns from \_\_\_\_\_ capital markets provide returns to shareholders from \_\_\_\_\_.
- (a) capital gains ; dividends. (b) appreciation ; capital gains.  
(c) dividends ; capital gains. (d) earnings ; capital appreciation.
14. The biggest stock exchange in India :
- (a) National Stock Exchange. (b) Calcutta Stock Exchange.  
(c) Bombay Stock Exchange. (d) Madras Stock Exchange.
15. The ability of commercial banks to increase their deposits by expanding their loans and advances is known as :
- (a) capital expansion. (b) credit creation.  
(c) credit expansion. (d) credit control.
16. As new information is available, financial markets :
- (a) reflect this new information immediately in the prices of securities traded.  
(b) publish this information.  
(c) provide the information to financial intermediaries.  
(d) decide how best to tell the public.

(4 × 1 = 4)

**Part B (Short Answer Questions)**

*Answer any five questions, not exceeding 50 words.  
Each question carries a weight of 1.*

17. Unit Trust.  
18. Gilt Edged Security.  
19. Distinguish between GDR and ADR.  
20. Underwriters.  
21. IPO and FPO.  
22. ESOP.  
23. BOLT.  
24. NASDAQ.

(5 × 1 = 5)

**Part C (Short Answer)**

*Answer any four questions, not exceeding 150 words.  
Each question carries a weight of 2.*

25. What are the major non banking financial intermediaries ?

**Turn over**

26. What is money market ? What is the importance of money market ?
27. Discuss the role of capital market for the industrial development of India.
28. What is public issue ? What are the methods of public issue ?
29. What are the functions of depositories ? Distinguish between National Securities Depository Limited and Central Depository Services Limited.
30. What is a stock market index ? Explain the components of BSE and NSE.

(4 × 2 = 8)

#### Part D (Long Essays)

*Answer any two questions, not exceeding 450 words.  
Each question carries a weight of 4.*

31. What are the different types of money market instruments used in India ? Also explain the recent trends in money market in India.
32. What is the role of Reserve Bank of India and Discount and Finance House of India in the Indian money market ?
33. What is the role of a stock exchange in an economy ? How does changes in economic environment affect stock market ?

(2 × 4 = 8)