for Full Book Order online and Available at all Leading Bookstores



## COMMERCE

12th Std

Based on the New Syllabus and New Textbook for the year 2019-20

## Salient Features

- Exhaustive Additional MCQs, VSA, SA, and LA with answers are given in each chapter.
- All the objective type (1 Mark) questions, are given with 4 options.
  - (i) Choosing the Correct option
  - (ii) Matching
  - (iii) Fill in the Blanks
  - (iv) Picking the Odd one Out
  - (v) Correctly Matched / Not Correctly Matched
  - (vi) Assertion & Reason
  - (vii) Choosing the Correct Statement



Chennai

#### 2019-20 Edition

#### All rights reserved © SURA Publications.

No part of this book may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, digitally, electronically, mechanically, photocopying, recorded or otherwise, without the written permission of the publishers. Strict action will be taken.

ISBN: 978-81-8449-801-1

Code No: SG 93

#### **Authors:**

Mr. Ekambaram, M.Com., M.Phil., MBA.

Mr. Lakshmanan, M.Com., M.Phil.

Mr. Rajasekar, M.Com., B.Ed.

Madurai

Chennai

Chennai

#### **Edited by:**

Mrs. Geetha Lakshmi, M.Com., B.Ed.

Trichy

Ms. Dhanalakshmi, M.Com.

Chennai



#### Reviewed by:

Dr. Gunasekar, M.Com., M.Phil., Ph.D.

Chennai

Mrs. Indira Gopalakrishnan, M.Com., M.Phil.

Chennai



#### **Head Office:**

1620, 'J' Block, 16<sup>th</sup> Main Road, Anna Nagar, **Chennai - 600 040. Phones**: 044-26162173, 26161099. **Mob**: 81242 01000/ 81243 01000 **Fax**: (91) 44-26162173 **e-mail**: orders @surabooks.com

website: www.surabooks.com

#### **For More Information - Contact**

Queries : enquiry@surabooks.com
For Order : orders@surabooks.com

Contact 96001 75757 / 8124301000 Whatsapp 8124201000 / 9840926027

Online Site : www.surabooks.com For Free Study Materials Visit http://tnkalvi.in

## **PREFACE**

The woods are lovely, dark and deep.
But I have promises to keep, and
miles to go before I sleep

- Robert Frost

Respected Principals, Correspondents, Headmasters/ Headmistresses, Teachers,

From the bottom of our heart, we at SURA Publications sincerely thank you for the support and patronage that you have extended to us for more than a decade.

It is in our sincerest effort we take the pride of releasing **SURA's Commerce** for +2 Standard - Edition 2019. This guide has been authored and edited by qualified teachers having teaching experience for over a decade in their respective subject fields. This Guide has been reviewed by reputed Professors who are currently serving as Head of the Department in esteemed Universities and Colleges.

With due respect to Teachers, I would like to mention that this guide will serve as a teaching companion to qualified teachers. Also, this guide will be an excellent learning companion to students with exhaustive exercises and in-text questions in addition to precise answers for textual questions.

In complete cognizance of the dedicated role of Teachers, I completely believe that our students will learn the subject effectively with this guide and prove their excellence in Board Examinations.

I once again sincerely thank the Teachers, Parents and Students for supporting and valuing our efforts.

God Bless all.

Subash Raj, B.E., M.S.

- Publisher

**Sura Publications** 

All the Best

(iii)

#### TO ORDER WITH US

#### **SCHOOLS and TEACHERS**

We are grateful for your support and patronage to **'SURA PUBLICATIONS'** Kindly prepare your order in your School letterhead and send it to us. For Orders contact: 81242 01000 / 81243 01000

#### **DIRECT DEPOSIT**

A/c Name : Sura Publications

Our A/c No. : **36550290536** 

Bank Name : **STATE BANK OF INDIA** 

Bank Branch: PADI

IFSC : SBIN0005083

A/c Name : Sura Publications

Our A/c No. : **6502699356**Bank Name : **INDIAN BANK** 

Bank Branch: ASIAD COLONY

IFSC : IDIB000A098

A/c Name : Sura Publications

Our A/c No. : **21000210001240** 

Bank Name : UCO BANK

Bank Branch: Anna Nagar West IFSC: UCBA0002100

A/c Name : Sura Publications

Our A/c No.: 1154135000017684

Bank Name : **KVB BANK** Bank Branch : Anna Nagar

IFSC : KVBL0001154

After Deposit, please send challan and order to our address.

email: orders@surabooks.com / Whatsapp: 81242 01000.

#### **DEMAND DRAFT / CHEQUE**

Please send Demand Draft / cheque in favour of 'SURA PUBLICATIONS' payable at Chennai.

The Demand Draft / cheque should be sent with your order in School letterhead.

#### **STUDENTS**

Order via Money Order (M/O) to

#### **SURA PUBLICATIONS**

1620, 'J' Block, 16th Main Road, Anna Nagar, Chennai - 600 040.

Phones: 044-26162173, 26161099.

Mobile: 96001 75757/81242 01000/81243 01000.

email: orders@surabooks.com Website: www.surabooks.com



#### **UNIT I - MANAGEMENT PROCESS**

Principles Of Management	- 13
Functions Of Management	- 20
Management By Objectives (MBO) and	
Management By Exception (MBE)	- 28
IT II - FINANCIAL MARKETS – I	
Introduction To Financial Markets	- 36
Money Market	- 56
IT III - FINANCIAL MARKETS – II	
Stock Exchange	- 68
Securities Exchange Board Of India (SEBI)	- 77
IT IV - HUMAN RESOURCE MANAGEMENT	
Human Resource Management	- 86
Recruitment Methods	- 95
Employee Selection Process	109
Employee Training Method	120
IT V - ELEMENTS OF MARKETING	
Concept Of Market And Marketer	129
Marketing And Marketing Mix	138
Recent Trends In Marketing	148
	Management By Exception (MBE)

#### **UNIT VI - CONSUMER PROTECTION** 16. 17. Consumer Protection 161 - 167 18. **UNIT VII - BUSINESS ENVIRONMENT** 19. 20. UNIT VIII - THE SALE OF GOODS ACT, 1930 AND THE NEGOTIABLE **INSTRUMENTS ACT. 1881** 21. 22. **UNIT IX - ENTREPRENEURSHIP DEVELOPMENT** 23. 24. 25 UNIT X - COMPANY LAW AND SECRETARIAL PRACTICE 26. 27.

28.

for Full Book Order online and Available at all Leading Bookstores

# UNIT I

## MANAGEMENT PROCESS

**CHAPTER** 

1

# PRINCIPLES OF MANAGEMENT

#### **CHAPTER SNAPSHOT**

- 1.1 Concept of Management
- 1.2 Definitions of Management
- 1.3 Management is differ from Administration
- 1.4 Management Process
- 1.5 Principles of Scientific Management
- 1.6 Principles of Modern Management
- 1.7 Span of Management

## **EXERCISE**

#### I. CHOOSE THE CORRECT ANSWERS. 1 MARK

- 1. Management is what a \_\_\_\_\_ does?
  - (a) Manager
- (b) Subordinate
- (c) Supervisor
- (d) Superior

[Ans. (a) Manager]

- 2. Management is an \_
  - (a) Art
- (b) Science
- (c) Art and Science
- (d) Art or Science

[Ans. (c) Art and Science]

- 3. Scientific management is developed by
  - (a) Fayol
- (b) Taylor
- (c) Mayo
- (d) Jacob

[Ans. (b) Taylor]

- 4. Dividing the work into small tasks is known as
  - (a) Discipline
- (b) Unity
- (c) Division of work
- (d) Equity

[Ans. (c) Division of work]

- With a wider span, there will be \_\_\_\_ hierarchical levels.
  - (a) More
- (b) Less
- (c) Multiple
- (d) Additional

[Ans. (b) Less]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. What is Management?

**Ans.** Management is the process of giving direction and controlling the various activities of the people to achieve the objectives of an organisation.

## 🕏 Sura's XII Std - Commerce

#### 2. List out the management tools.

**Ans.** Tools of managements have been developed such as accounting, business law, psychology, statistics, econometrics, data processing, etc.

#### 3. Who is a manager?

**Ans.** A person responsible for controlling or administering an organization or group of staff. Manager is a salaried employee in the entity set up for carrying on the venture.

#### 4. State the meaning of Authority.

**Ans.** Authority means the right of a superior to give enhance order to his sub-ordinates that is a power given to a person to get work from his sub-ordinates.

#### 5. What do you mean by Span of management?

- Ans. (i) The span of management refers to the number of subordinates who can be managed efficiently by a superior.
  - (ii) Simply, the manager having the group of subordinates who report him directly is called as the span of management.

#### III. Short Answer Questions. 3 Marks

#### 1. Define the term management.

Ans. According to Koontz and Weihrich, "Management is the process of designing and maintaining of an environment in which individuals working together in groups efficiently accomplish selected aims".

#### 2. Is management an Art or Science?

#### Ans. Is Management a Science:

- (i) Management is an in-exact science, because in pure science, the principles are put into test in a laboratory and they are either proved or disproved exactly and precisely.
- (ii) Where men, machine, money and materials (4M's) are practically, integrated towards achieving some chosen organisational goals.
- (iii) So, management can be described as an inexact science.

#### Is Management an Art:

- (i) Everyone believes that management is an art.
- (ii) Because, the concept of art denotes the learning of skills and practicing them in the day to day life like a mason or carpenter or mechanic or a musician being able to perform their respective art they learnt by way of skill display before anybody under any circumstances.

#### Management is both - Science and an art:

- (i) Management is neither a science nor an art, but a combination of both.
- (ii) Management is a science, because it contains general principles.
- (iii) It is also an art because, it requires certain personal skills to achieve desired results.

#### 3. Differentiate management from Administration.

#### Ans.

	Basis	Management	Administration	
1.	Meaning		The process of administering an organisation by a group of people is known as administration	
2.	Authority	Middle and lower level	Top level	
3.	Concerned with	Policy implementation	Policy formulation	
4.	Role	Executive	Decisive	
5.	Area of operation	It works under administration	It has full control over the activities of the organisation.	

#### 4. What are the principles of Taylor?

**Ans.** Taylor propounded the principles of scientific management. They are :

- (i) Science, Not Rule of Thumb
- (ii) Harmony, Not Discord
- (iii) Mental Revolution
- (iv) Co-operation, Not individualism
- (v) Development of each and every person to his or her greatest efficiency and prosperity.

## 5. What determines the span of management? Ans.



The span of managements can be determined on the basis of a number of relationship that a manager can manage. These are:

- (i) Capacity of superior: Each manger or superior may have different ability and capacity in respect of such factors as leadership, communication, decisionmaking, control affecting management of subordinates.
- (ii) Capacity of subordinates: Capacity of subordinates also affects the degree of span of management trained and experienced subordinates need lesser supervision than the new hands. A well-trained employee can solve simpler problem himself.
- (iii) Nature of work: In case of routine and respective operations, span can be wider as subordinates would not require frequent guidance from the supervisor.

#### IV. Long Answer Questions. 5 Marks

## 1. Write about the contribution of Drucker to management.

**Ans.** Some of the major contributions of peter F Drucker are as follows:

#### 1. Nature of Management:

Drucker is against bureaucratic management and has emphasised management with creative and innovate characteristics. The basic objective of management is to read towards innovation.

## 👣 Sura's XII Std - Commerce

#### 2. Management functions:

According, there are three basic functions of a manager which he must perform to enable the institution to make its contribution for:

- (i) the specific purpose and mission of the institution whether business, hospital or university;
- (ii) making work productive and the worker achieving; and
- (iii) managing social impacts and social responsibilities.

#### 3. Organisation structure:

Drucker emphasised three basic characteristics of an effective organisation structure. These are :

- (i) Enterprise should be organised for performance.
- (ii) It should contain the least possible number of managerial levels.
- (iii) It must make possible the training and testing of tomorrow's top managers responsibility to a manager while still he is young.

#### 4. Federalism:

Drucker has advocated the concept of federalism. Federalism refers to centralised control in decentralised structure. Decentralised structure goes far beyond the delegation of authority.

#### 5. Management by objectives:

- (i) Management by objectives (MBO) is regarded as one of the important contributions of Drucker to the discipline of management.
- (ii) MBO includes methods of planning, setting standards, performance appraisal and motivation.

#### 2. Explain the management process in detail.

Ans. There are five parts of management as a process: first, the co-ordination of resources; second, the performance of managerial functions as a means of achieving co-ordination; the third, establishing the objective or purpose of management process, i.e., it must be purposeful managerial activity; the fourth aspect is that management is a social process, and the fifth is its cyclical nature.

## 👣 Sura's XII Std - Commerce

#### (i) Management is Co-ordination :

The manager of an enterprise must effectively co-ordinate all activities and resources of the organisation, namely men, machines, materials and money, the four M's of the management.

#### (ii) Management is a process:

The manager achieves proper co-ordination of resources by means of the managerial functions of planning, organising, staffing, directing and controlling.

#### (iii) Management is a purposive process:

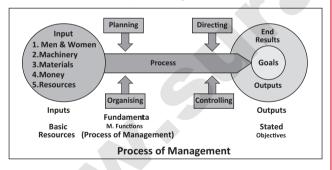
It is directed towards the achievement of predetermined goals or objectives. Without an objective, we have no destination to reach or a path to follow to arrive at our destination i.e. a goal, both management and organisation must be purposive or goal - oriented.

#### (iv) Management is a social process:

It is the art of getting things done through other people.

#### (v) Management is a cyclical process:

It represents planning – action – control – re-planing cycle i.e. an ongoing process to attain the planned goals.



## 3. Describe the principles of scientific management.

**Ans.** Principles of scientific management propounded by Taylor are explained in brief as follows:

#### 1. Science, Not Rule of Thumb:

- (i) In order to increase organisational efficiency, the 'Rule of Thumb' method should be substituted.
- (ii) Rule of Thumb means decisions taken by manager as per their personal judgements.
- (iii) This will help in saving time as well as human energy.

#### 2. Harmony, Not Discord:

- (i) Taylor emphasised that there should be complete harmony between the workers and the management.
- (ii) If there is any conflict between the two, it will not be beneficial either for the workers or the management.
- (iii) Both the management and the workers should realise the importance of each other.

#### 3. Mental Revolution:

- (i) The technique of mental revolution involves a change in the attitude of workers and management towards each other.
- (ii) Thus, mental revolution requires a complete change in the outlook of both management and workers.

#### 4. Co-operation, Not Individualism:

- (i) This principle is an extension of principle of 'Harmony not discord'.
- (ii) Co-operation, mutual confidence, sense of goodwill should prevail among both, managers, as well as workers.
- 5. Development of each and every person to his or her greatest efficiency and prosperity:
  - (i) Efficiency of any organisation also depends on the skills and capabilities of its employees to a great extent.
  - (ii) Employees should be scientifically selected.
  - (iii) This ultimately helps to attain efficiency and prosperity for both organisation and the employees.

#### 4. Explain the principles of modern management.

- **Ans.** Henry Fayol is the father of modern management. The following are the major principles of modern management are,
  - (i) Division of work: According to this principle the whole work is divided into small tasks. The specialization of the workforce according to the skills of a person, creating specific personal and professional development within the labour force and therefore increasing productivity.

#### (ii) Authority and Responsibility:

Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.

#### (iii) Discipline:

It is obedience, proper conduct in relation to others, respect of authority, etc. It is essential for the smooth functioning of all organisations.

#### (iv) Unity of command:

This principle states that each sub-ordinate should receive orders and be accountable to one and only one superior.

#### (v) Unity of direction:

All related activities should be put under one group, there should be one plan of action for them, and they should be under the control of one manager.

#### (vi) Remuneration:

workers must be paid sufficiently as this is a chief motivation of employees and therefore greatly influences productivity.

#### (vii) The degree of centralisation:

The amount of power wielded with the central management depends on company size.

## Sura's XII Std - Commerce

- 5. Discuss the implications of span of management.
- **Ans.** The Span of Management has two implications:
  - (i) Influences the complexities of the individual manager's job
  - (ii) Determine the shape or configuration of the Organization
    - The span of management is related to the horizontal levels of the organization structure. Whereas, with the narrow span, the hierarchical levels increases, hence the organizational structure would be tall.
  - (iii) Both these organizational structures have their advantages and the disadvantages. But however the tall organizational structure imposes more challenges.
  - (iv) Since the span is narrow, which means less number of subordinates under one superior, requires more managers to be employed in the organization. Thus, it would be very expensive in terms of the salaries to be paid to each senior.
  - (v) With more levels in the hierarchy, the communication suffers drastically. It takes a lot of time to reach the appropriate points, and hence the actions get delayed.
  - (vi) Lack of coordination and control because the operating staff is far away from the top management.

## Additional Questions and Answers

#### I. Choose the Correct Answers. 1 Mark

#### I. CHOOSE THE CORRECT OPTION.

- 1. The observation of people at work that would reveal the one best way to do a task is known as
  - (a) scientific management
  - (b) creative management
  - (c) human resource management
  - (d) classical management

[Ans. (a) scientific management]

- 2. The founder of scientific management was
  - (a) Peter F. Drucker
- (b) Frederick Taylor
- (c) Henry Fayol
- (d) Elton

[Ans. (b) Frederick Taylor]

- 3. The first management principles were developed by
  - (a) Victor Meldrew
- (b) Charles
- (c) Henry Fayol
- (d) Taylor

[Ans. (c) Henry Fayol]

- 4. Studying the future and arranging the means for dealing with it is part of the process of
  - (a) Organising
- (b) Controlling
- (c) Coordinating
- (d) Planning

[Ans. (d) Planning]

## Sura's XII Std - Commerce

- 5. "Division of work, authority and responsibility, unity of command" were proposed as part of the fourteen principles of management by
  - (a) Fayol
- (b) Meldrew
- (c) Taylor
- (d) Charles

[Ans. (a) Fayol]

- 6. Principles of management are not
  - (a) Absolute
- (b) Flexible
- (c) Behavioural
- (d) Universal

[Ans. (a) Absolute]

- 7. How are principles of management formed?
  - (a) In a laboratory
  - (b) By experience of mangers
  - (c) By experience of customers
  - (d) By experience of producers

[Ans. (b) By experience of managers]

- 8. The principles of management are significant because of
  - (a) changing technology
  - (b) utilisation of resources
  - (c) increase in efficiency (d) initiative

[Ans. (c) increase in efficiency]

- 9. Henri Fayol was a
  - (a) Social scientist
- (b) Accountant
- (c) Production engineer (d) Mining engineer

[Ans. (d) Mining engineer]

- 10. Which of the following is not a principle of management given by Taylor?
  - (a) Functional foremanship
  - (b) Science, not rule of the thumb
  - (c) Maximum, not restricted output
  - (d) Harmony, not dischord

[Ans. (a) Functional foremanship]

- 11. A reporting relationship in which an employee receives order from, and reports to only one supervisor is known as
  - (a) Unity of direction
  - (b) Unity of command
  - (c) Centralization
  - (d) Planning [Ans. (b) Unity of command]

- 12. Which of the following is not a function of management?
  - (a) Staffing
- (b) Planning
- (c) Controlling
- (d) Cooperation

[Ans. (d) Cooperation]

- 13. Find the odd one out.
  - (a) board of directors
- (b) chief executive
- (c) foremen
- (d) shareholders

[Ans. (c) foremen]

- 14. Management should find 'one best way' to perform a task. Which technique of scientific management is defined in this sentence.
  - (a) Time study
- (b) Motion study
- (c) Fatigue study
- (d) Method study

[Ans. (d) Method study]

- 15. Observe the following management principles and pick the odd one out. Justify your answer.
  - (a) unity of command
- (b) unity of direction
- (c) maximum output
- (d) equity

[Ans. (c) maximum output]

- 16. Which of the following is not the functional areas of management?
  - (a) Production management
  - (b) Marketing management
  - (c) Personnel management
  - (d) Information management

[Ans. (d) Information management]

- 17. Which of the following is not true?
  - (a) Management is universal
  - (b) Management is an art
  - (c) Management is a social process
  - (d) Management is always bureaucratic

[Ans. (d) Management is always bureaucratic]

- 18. Modern managers are:
  - (a) Action oriented
  - (b) Able to build a sense of shared values
  - (c) Able to manage changes efficiently
  - (d) All of the above

[Ans. (d) All of the above]

#### for Full Book Order online and Available at all Leading Bookstores

# II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.		List I		List II
	i)	Body of knowledge	1)	Training programmes
	ii)	Management Tools	2)	Professionals
	iii)	Separate Discipline	3)	Data processing
	iv)	Specialisation	4)	Theory and philosophy

#### Codes:

2.

(i)	(ii)	(iii)	(iv)

	List I		List II
i)	Code of conduct	1)	Directing and controlling
ii)	Professional Association	2)	Human resources
iii)	Functional School	3)	Managerial profession
iv)	Behavioural School	4)	Social responsibilities

#### Codes:

	(i)	(ii)	(iii)	(iv)
(a)	1	2.	3	4

#### [Ans. (c) (i)-4; (ii)-3; (iii)-1; (iv)-2]

3.		List I		List II
	i)	Management	1)	Managerial functions
	ii)	Administration	2)	Planned goals
	iii)	Co-ordination	3)	Top level
	iv)	Cyclical process	4)	Lower level

## Sura's XII Std - Commerce

#### Codes:

(i)	(ii)	(iii)	(iv

4.		List I		List II
	i)	Rule of Thumb	1)	Mutual trust
	ii)	Mental Revolution	2)	Extension of principle
	iii)	Group action	3)	Attitude of
				workers
	iv)	Cooperation	4)	Personal
				judgments

#### Codes:

<b>5.</b>		List I		List II		
	i)	Division of work	1)	Obligation for performance		
	ii)	Authority	2)	Smooth functioning of an organisation		
	iii)	Responsibility	3)	Right of a superior		
	iv)	Discipline	4)	Increasing productivity		

#### Codes:

## Sura's XII Std - Commerce

#### III. CHOOSE AND FILL IN THE BLANKS.

- 1. Management has now developed into a specialised body of \_\_\_\_ and
  - (a) management theory, philosophy
  - (b) art, science
  - (c) science, psychology
  - (d) none of these

[Ans. (a) management theory, philosophy]

- 2. \_\_\_\_\_ studies in many universities and institutions of higher learning are recognised as a separate discipline.
  - (a) Science
- (b) Psychology
- (c) Management
- (d) Philosophy

[Ans. (c) Management]

- 3. \_\_\_\_ have approach concentrates on the entire organisation.
  - (a) Systems
- (b) Contingency
- (c) Man Power
- (d) None of these

[Ans. (a) Systems]

- 4. \_\_\_\_\_ approach emphasises dynamic nature of management process in an ever-changing business environment.
  - (a) Systems
- (b) Man power
- (c) Contingency
- (d) Management

[Ans. (c) Contingency]

- 5. The art of management is fully reflected in the \_\_\_\_\_ capacity of a manager.
  - (a) professional association
  - (b) separate discipline
  - (c) decision-making
  - (d) co-ordination

[Ans. (c) decision-making]

- 6. \_\_\_\_\_ is all about plans and actions.
- (a) Management
- (b) Accountant
- (c) Administration
- (d) Specialisation

[Ans. (a) Management]

- 7. \_\_\_\_ means decisions taken by manager as per their personal judgements.
  - (a) Mental revolution
- (b) Cooperation
- (c) Rule of thumb
- (d) None of these

[Ans. (c) Rule of Thumb]

- 8. \_\_\_\_\_ requires a complete change in the outlook of both management and workers.
  - (a) Group discussion
- (b) Rule of Thumb
- (c) Cooperation
- (d) Mental revolution

[Ans. (d) Mental revolution]

- 9. \_\_\_\_\_ implies the concentration of decision making authority at the top management.
  - (a) Centralization
- (b) Remuneration
- (c) Scalar chain
- (d) Equity

[Ans. (a) Centralization]

- 10. \_\_\_\_\_ refer to the chain of superiors ranging from top management to the lowest rank.
  - (a) Authority
- (b) Responsibility
- (c) Line of authority
- (d) Remuneration

[Ans. (c) Line of authority]

- 11. \_\_\_\_\_ is the study of how to create an organizational structure that leads to high efficiency and effectiveness.
  - (a) Scientific management
  - (b) Planning
  - (c) Allocation management
  - (d) None of these

[Ans. (c) Allocation management]

- 12. \_\_\_\_ is part and parcel of our day to day life.
  - (a) Management
- (b) Industry
- (c) Commerce
- (d) Economics

[Ans. (a) Management]

- 13. \_\_\_\_\_ is growing in all countries.
  - (a) Knowledge
  - (b) Management literature
  - (c) Both
  - (d) None of these

[Ans. (b) Management literature]

#### for Full Book Order online and Available at all Leading Bookstores

- is the decision making body of an organizations.
  - (a) Administration
  - (b) Functional organisation
  - (c) Leadership
  - (d) Decentralisation

[Ans. (a) Administration]

- 15. Authority refers to \_
  - (a) getting work done
  - (b) scalar chain
  - (c) right to get work done
  - (d) being in a managerial position

[Ans. (c) right to get work done]

- 16. helps to finish to task on time.
  - (a) Planning
- (b) Motivation
- (c) Team spirit
- (d) Remuneration

[Ans. (c) Team spirit]

- order ensures the fluid operation of a company through authoritative procedure.
  - (a) Social order
- (b) Material order
- (c) Human order
- (d) None of these

[Ans. (a) Social order]

- is essential for the smooth 18. functioning of all organizations.
  - (a) unity of command
- (b) unity of direction
- (c) Discipline
- (d) Remuneration

[Ans. (c) Discipline]

#### IV. PICK THE ODD ONE OUT.

- (a) Separate Discipline
  - (b) Management Tools
  - (c) Body of knowledge
  - (d) Mental Revolution

#### [Ans. (d) Mental Revolution]

Reason: The techniques of mental revolution involves a change in the attitude of workers and management towards each other. Other three are characteristics of management.

- (a) Rule of Thumb
  - (b) Purposive process
  - (c) Social process
  - (d) Cyclical process

[Ans. (a) Rule of Thumb]

## Sura's XII Std - Commerce

Reason: Rule of Thumb means decisions taken by manager as per their personal judgements. Other three are parts of management.

- (a) Division of work 3.
  - (b) Unity of command
  - (c) Taylor
  - (d) Unity of direction

[Ans. (c) Taylor]

Reason: Scientic management is developed by Taylor. Other three are principles of modern management.

- (a) Remuneration
- (b) Equity
- (c) Team spirit
- (d) Administration

[Ans. (d) Administration]

Reason: Administration is concerned with framing policies and setting objectives. Other three are principles of model management.

#### V. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

- (a) Management Statistics **Tools** 
  - (b) Separate Seminars Discipline
  - (c) Body of Management knowledge literature
  - (d) Specialisation Social institution

#### [Ans. (d) Specialisation – Social institution]

- (a) System approach Inputs process
  - (b) Contingency **Business** environment
  - Behavioural school
- Social resources
- (d) Functional School
- Process of planning

#### [Ans. (c) Behavioural school – Social resources]

- (a) Division of work Small tasks
  - (b) Discipline Respect of authority
  - Initiative Strength and new ideas
  - (d) Unity of Mutual trust direction

[Ans. (d) Unity of direction – Mutual trust]

## 🕏 Sura's XII Std - Commerce

## VI. WHICH ONE OF THE FOLLOWING IS CORRECTLY MATCHED?

- 1. (a) Unity of Create confusion command and conflict
  - (b) Unity of Goals of the direction organisation
  - (c) Remuneration Social justice
  - (d) Centralisation Top management

[Ans. (a) Unity of command – Create confusion and conflict]

- **2.** (a) Social order Stability
  - (b) Material order Safety and efficiency
  - (c) Equity Rewarding of effort
  - (d) Initiative Fluid operation

[Ans. (b) Material order – Safety and efficiency]

#### VII. CONSIDER THE FOLLOWING STATEMENT.

1. Assertion (A): Management has now developed into a specialised body of management theory and philosophy.

**Reason** (R): Management studies in many universities and institutions of higher learning are recognised as a separate discipline.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**Assertion (A):** The art of management is fully reflected in the decision making capacity of a manager.

**Reason** (R): Management focuses on managing people and their work.

(a) Both (A) and (R) are true and (R) is the correct explanation of (A).

- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**3.** Assertion (A): Rule of Thumb means decisions taken by manager as per their personal judgements.

**Reason** (R): Decisions should be based on scientific enquiry with cause and effect relationships.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**4. Assertion (A)** : Group action with mutual trust and understanding should be perfect understanding the focus of working.

**Reason** (R): This principle requires that there should be perfect understanding between the management and workers.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**5. Assertion** (**A**) : Material order ensures safety and efficiency in the workplace.

**Reason** (R): Team spirit helps develop an atmosphere of mutual trust and understanding.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

#### VIII. CHOOSE THE CORRECT STATEMENT.

- 1. (i) Management literature is growing in all countries.
  - (ii) Corporations have now social conscience and awareness.
  - (iii) Consumer oriented marketing concept is the reflection of a corporate code of conduct.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (i) and (ii) are correct
  - (d) (i), (ii) and (iii) are correct

#### [Ans. (d) (i), (ii) and (iii) are correct]

- 2. (i) Behavioural school sees management as a process of planning, organising, directing and controlling.
  - (ii) Quantitative school wants to improve the quality of decision making.
  - (iii) Systems approach concentrates on the entire organisation, i.e., inputs and outputs process.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (ii) and (iii) are correct
  - (d) (i) and (iii) are correct

#### [Ans. (c) (ii) and (iii) are correct]

- 3. (i) The art of management is fully reflected in the decision making capacity of manager.
  - (ii) Judgement and imagination are essential even in computerised economy.
  - (iii) A computer can replace a manager in decision making.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (i) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

#### [Ans. (b) (i) and (ii) are correct]

- 4. (i) Management as well as the workers should aim to increase the profits of the organisation.
  - (ii) Mental revolution requires a complete change in the outlook of both management and workers.

## Sura's XII Std - Commerce

- (iii) Workers should be considered as part of management and should be allowed to take part in decision making process of the management.
- (a) (i) is correct
- (b) (ii) and (iii) are correct
- (c) (i) and (ii) are correct
- (d) (i), (ii) and (iii) are correct

#### [Ans. (d) (i), (ii) and (iii) are correct]

- 5. (i) Authority means the right of a superior to give the order to his subordinates.
  - (ii) Discipline is essential for the smooth functioning of all organisations.
  - (iii) Centralization implies the concentration of decision making authority at the top management.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (ii) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

- 1. What is responsibility?
- **Ans.** Responsibility means obligation for performance. It is the amount of work expected from a man by his superior.
- 2. What is unity of direction?
- **Ans.** All related activities should be put under one group, there should be one plan of action for them and they should be under the control of one manger.
- 3. What are the functional area of management?
- Ans. The functional area of management are : export management, personnel management, general management, production management, marketing management and financial management.
- 4. What are 4 M's?
- **Ans.** Men, Machine, Money and Materials are called 4 M's.
- 5. What is scientific management?
- **Ans.** Scientific management refers to the use of scientific methods to management problems.

## 👣 Sura's XII Std - Commerce

#### 6. What is unity of command?

**Ans.** This principle states that each sub-ordinate should receive orders and be accountable to one and only one superior.

#### 7. What is meant by Esprit De Corps?

**Ans.** Esprit de corps means "union is strength". In an organisation, employees should be harmony and unit. It improves the employee morale.

#### 8. What are the three jobs of management?

**Ans.** According to peter Drucker three jobs of management are:

- (i) Managing a business
- (ii) Managing a manager
- (iii) Managing workers and work.

#### 9. What is meant by Management process?

**Ans.** Management is regarded as a social process because it is directly concerned with management of human resources in order to secure co-operation and team work from the people in their performance.

## 10. What are the twin purposes of the management process?

**Ans.** There are twin purposes of the management process: They are

- (i) Maximum productivity or profitability; and
- (ii) Maximum human welfare and satisfaction.

#### III. Short Answer Questions. 3 Marks

## 1. Why management is regarded as a social process?

**Ans. (i)** The substance of management should be identified as a process.

- (ii) A process is something that what a person does in the context of his individual duties and responsibilities assigned by his or her immediate higher authority.
- (iii) A process also implies on going and unceasing cyclical operations.
- (iv) In management, we have planning action control cycle.
- (v) A process indicates the dynamic nature of management.
- (vi) It also implies that change is a constant reality of organisational life and management is the management of change.

#### 2. Explain Management Vs Administration.

- **Ans.** The two terms 'management' and 'administration' are used inter changeably.
  - (i) While management is more executive in nature. But the concept of administration denotes the art of decision making.
  - (ii) Management is all about plans, actions, but the administration is concerned with framing policies and setting objectives.
  - (iii) The manager looks after the management of the organisation, whereas administration is responsible for the administration of the organisation.

## 3. Explain the principal ideas of school of management.

- **Ans. (i)** Functional school sees management as a process of planning, organising, directing and controlling.
  - (ii) Behavioural school is not interested in the process only but rather in the way the process affects the organisation, i.e., with and through personnel or human resource.
  - (iii) Quantitative school wants to improve the quality of decision making, i.e., fulfilling the stated objectives of the enterprise.
  - (iv) Systems approach concentrates on the entire organisation, i.e., inputs process outputs.
  - (v) Contingency approach emphasises dynamic nature of management process in an everchanging business environment.

#### 4. Write a short notes on a. Equity b. Initiative

#### Ans. (a) Equity:

- (i) Employees must be treated kindly and justice must be enacted to ensure a just workplace.
- (ii) Managers should be fair and impartial when dealing with employees, giving equal attention towards all employees.

#### (b) Initiative:

- (i) Using the initiative of employees can add strength and new ideas to an organization.
- (ii) Initiative on the part of employees is a source of strength for organization because it provides new and better ideas.
- (iii) Employees are likely to take greater interest in the functioning of the organization.

## 5. Discuss the differences between the contributions of Taylor and Fayol.

#### Ans.

	Basis	Henry Fayol	F.W. Taylor
1.	Perspective	Top level of management	Shop floor level of a factory
2.	Basis of formation	Personal experience	Observations and experimentation
3.	Focus	Improving overall administration	Increasing productivity
4.	Personality	Practitioner	Scientist

6. Distinguish between unity of command and unity of direction.

#### Ans.

	Basis	Unity of command	Unity of direction
1.	Meaning	One subordinate should receive orders from one boss only	Each group of activities should have one head and one plan
2.	Aim	It avoids dual subordination	It avoids overlapping of activities
3.	Implication	It affects individual employee	It affects the entire organisation



#### IV. Long Answer Questions. 5 Marks

- 1. What are the characteristic of management? Explain.
- **Ans.** The management concept can be understood from its profound characteristic features as follows:
  - (i) Body of Knowledge: Management has now developed into a specialised body of management theory and philosophy. Management literature is growing in all countries.
  - (ii) Management Tools: Tools of management have been developed such as, accounting, business law, psychology, statistics, econometrics, data processing, etc.
  - (iii) Separate Discipline: Management studies in many universities and institutions of higher learning are recognised as a separate discipline.
  - (iv) Specialisation: There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional areas of management.
  - (v) Code of Conduct: Enlightened businessmen have recognised that business management is a social institution and it has social responsibilities to be fulfilled towards customers, employees, and the public or community.
  - (vi) Professional Association: The Business Management Associations in many countries to promote the spread of knowledge in all management areas and to build up the bright public image of managerial profession.



This is Duly for Shorple

www.TrbTnpsc.com

for Full Book Order online and Available at all Leading Bookstores

CHAPTER

## **FUNCTIONS OF** MANAGEMENT

#### CHAPTER SNAPSHOT

- 2.1 Main Functions
- 2.2 **Subsidiary Functions**

## EXERCISE

#### Choose the Correct Answers.

- Which is the primary function of management?
  - (a) Innovating
- (b) Controlling
- (c) Planning
- (d) Decision-making

[Ans. (c) Planning]

- Which of the following is not a main function? 2.
  - (a) Decision-making (b) Planning
  - (c) Organising
- (d) Staffing

[Ans. (a) Decision-making]

- Distribution of work in groupwise or sectionwise is called as \_\_
  - (a) Co-ordinating
- (b) Controlling
- (c) Staffing
- (d) Organising

[Ans. (d) Organising]

- Which of the following is verification function?
  - (a) Planning
- (b) Organising
- (c) Staffing
- (d) Controlling

[Ans. (d) Controlling]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

- Write a short note about Planning.
- **Ans.** Planning is the primary function of management. Nothing can be performed without planning. Planning should take place before doing. Inshort planning refers to deciding in advance.
- What is meant by Motivation?
- Ans. The goals are achieved with the help of motivation. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of the workers.
- What is meant by Controlling?
- Ans. Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions. It is the control function which facilitates synchronization of actual performance with predetermined standards.
- How do you coordinate your classroom with peace?
- **Ans.** All the activities are divided group-wise or section-wise under organising function. Now, such grouped activities are co-ordinated towards the accomplishment of objectives of an organisation (Class room).

# **Functions of Management**

#### 5. What is meant by Innovation?

Ans. Innovation refers to the preparation of personnel and organisation to face the changes made in the business world. Continuous changes are being made in the business. Innovation includes developing new materials, new products, new techniques in production, new package, new design of a product and cost reduction.

#### III. SHORT ANSWER QUESTIONS. 3 MARKS

#### 1. List out the main functions of management.

Ans. The main functions of management are:

- (i) Planning
- (ii) Organising
- (iii) Staffing
- (iv) Directing
- (v) Motivating
- (vi) Controlling
- (vii) Co-ordination



#### 2. State the importance of staffing.

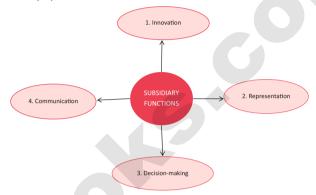
- **Ans. (i)** Staffing function comprises the activities of selection and placement of competent personnel.
  - (ii) In other words, staffing refers to placement of right persons in the right jobs.
  - (iii) Staffing includes selection of right persons, training to those needy persons, promotion of best persons, retirement of old persons, performance appraisal of all the personnel, and adequate remuneration of personnel.
  - (iv) The success of any enterprise depends upon the successful performance of staffing function.

## Sura's XII Std - Commerce

3. Bring out the subsidiary functions of management.

**Ans.** The subsidiary functions of management are as follows:

- (i) Innovation
- (ii) Representation
- (iii) Decision-making and
- (iv) Communication.



#### 4. State the importance of Motivation.

**Ans. (i)** The goals are achieved wit the help of motivation.

- (ii) Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers.
- (iii) This is done by an resourceful leader.
- (iv) The workers expect favourable climate conditions to work, fair treatment, monetary or non-monetary incentive effective communication and gentlemen approach.

#### 5. What are the main duties of a manager?

- **Ans. (i)** A manager has to act as representative of a company.
  - (ii) Manager has dealings with customers suppliers, government officials, banks, financial institutions, trade unions, etc.
  - (iii) It is the duty of every manager to have good relations with others.

#### IV. Long Answer Questions. 5 Marks

#### 1. Explain the various functions of management.

**Ans.** Functions of management can be classified into two categories.

- A. Main functions; and
- B. Subsidiary functions.

## Sura's XII Std - Commerce

#### A. Main functions:

#### (i) Planning:

- (a) Planning is the primary function of management.
- (b) Nothing can be performed without planning.
- (c) E.g. Writing a book starts with planning.

#### (ii) Organising:

- (a) Organising is the process of establishing harmonious relationship among the members of an organisation.
- (b) Organsing function work is assigned to employees who are given authority to carry out the work assigned and made accountable for it.

#### (iii) Staffing:

- (a) Staffing function comprises the activities of selection and placement of competent personnel.
- (b) Staffing refers to placement of right persons in the right jobs.

#### (iv) Directing:

- (a) Directing denotes motivating, leading, guiding and communicating with subordinates.
- (b) Employees are kept informed of all necessary matters by circulars, instructions manuals, newsletters, notice-boards, meeting, participative mechanism, etc.

#### B. Subsidiary functions:

#### (i) Innovation:

- (a) Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.
- (b) Innovation includes developing new material, new products, new techniques in production, new package, new design of a product and cost reduction.

#### (ii) Representation:

- (a) A manager has to act as representative of a company.
- (b) Manager has dealings with customers, suppliers, government officials, banks, financial institutions, trade unions, etc.
- (c) It is the duty of every manager to have good relation with others.

#### (iii) Decision - making:

- (a) Every employee of an organisation has to take a number of decisions every day.
- (b) Decision making helps in the smooth functioning of an organisation.

#### (iv) Communication:

- (a) Communication is the transmission of human thoughts, views or opinions from one person to another person.
- (v) Workers are informed about what should be done, where it is to be done, how it is to be done and when it is to be done.

#### ADDITIONAL QUESTIONS AND ANSWERS

#### I. Choose the Correct Answers. 1 Mark

#### I. Choose the Correct option.

#### 1. Management functions are called as

- (a) Managerial Process (b) Cyclical Process
- (c) Psychological Process
- (d) Accounting Process

[Ans. (a) Managerial Process]

#### 2. Nothing can be performed without

- (a) Organising
- (b) Staffing
- (c) Planning
- (d) Controlling

[Ans. (c) Planning]

#### 3. Consumers are satisfied through

- (a) coordination
- (b) motivation
- (c) innovation
- (d) representation

[Ans. (c) innovation]

## 4. Which of the following is not a function of management?

- (a) Budgeting
- (b) Profit earning
- (c) Staffing
- (d) Planning

[Ans. (b) Profit earning]

- 5. Which among the following is not a subsidiary function of management?
  - (a) Communication
- (b) Innovation
- (c) Motivation
- (d) Decision-making

[Ans. (c) Motivation]

- 6. Co-ordination means
  - (a) Organising activities
  - (b) Directing activities
  - (c) Synchronizing activities
  - (d) All of these

[Ans. (c) Synchronizing activities]

- 7. Planning, organizing, directing and controlling are the
  - (a) Functions of management
  - (b) Goals of management
  - (c) Results of management
  - (d) All of the above

[Ans. (a) Functions of management]

- 8. Coordinating people and human resources to accomplish organizational goals is the process of
  - (a) Planning
- (b) Directing
- (c) Management
- (d) Leadership

[Ans. (d) Leadership]

- 9. Which of the following would be included in the "Controlling function"?
  - (a) Measuring results against corporate objectives
  - (b) Explaining routines
  - (c) Setting standards
  - (d) Giving assignments

[Ans. (a) Measuring results against corporate objectives]

## Sura's XII Std - Commerce

- 10. Specific, shortterm statements detailing how to achieve an organization's goals is known as its
  - (a) Vision
  - (b) Mission Statement
  - (c) Objectives
  - (d) Operational planning [Ans. (c) Objectives]
- 11. An outline of the fundamental purpose of an organisation is called its
  - (a) Mission statement
- (b) Objectives
- (c) Policy
- (d) All of the above

[Ans. (a) Mission statement]

- 12. Strategic planning is done by
  - (a) Top managers of the firm
  - (b) Middle managers
  - (c) Supervisory managers
  - (d) Non supervisory employees

[Ans. (a) Top managers of the firm]

- 13. Empowerment is related to
  - (a) Planning
- (b) Organizing
- (c) Directing
- (d) Controlling

[Ans. (c) Directing]

- 14. Supervisory management spends most of his/ her time
  - (a) Planning and Controlling
  - (b) Directing and Controlling
  - (c) Planning and Organizing
  - (d) Organizing and Controlling

[Ans. (b) Directing and Controlling]

II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.		List I		List II
	i)	Planning	1)	Right persons
	ii)	Organising	2)	Organisation goals
	iii)	Staffing	3)	Creation of network
	iv)	Directing	4)	Deciding in advance

## Sura's XII Std - Commerce

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 4 3 1 2
- (c) 2 3 1 4

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

2.

	List I		List II
i)	Controlling	1)	Resourceful leader
ii)	Co-ordination	2)	Pre-set goals
iii)	Motivating	3)	Unification of integration
iv)	Directing	4)	Predetermined Standards

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 4 3 2 1
- (b) 1 2 3 4
- (c) 3 4 2 1 (d) 2 3 1 4

[Ans. (a) (i)-4; (ii)-3; (iii)-1; (iv)-2]

#### III. CHOOSE AND FILL IN THE BLANKS.

- 1. Functions of management can be classified into \_\_\_\_\_ categories.
  - (a) two
- (b) three
- (c) four (d) five

[Ans. (a) two]

- 2. \_\_\_\_\_ is the process of establishing harmonious relationship among the members of an organisation
  - (a) Planning
- (b) Organising
- (c) Staffing
- (d) Controlling

[Ans. (b) Organising]

- refers to placement of right persons in the right jobs.
  - (a) Directing
- (b) Planning
- (c) Controlling
- (d) Staffing

[Ans. (d) Staffing]

- 4. \_\_\_\_\_ is included in every managerial functions.
  - (a) Co-ordination
- (b) Motivation
- (c) Staffing
- (d) Planning

[Ans. (a) Co-ordination]

- 5. The goals are achieved with the help of
  - (a) Motivation
- (b) Innovation
- (c) Representation
- (d) Communication

[Ans. (a) Motivation]

- 6. \_\_\_\_\_ helps in the smooth functioning of an organisation.
  - (a) Communication
  - (b) Decision-making
  - (c) Planning
  - (d) Controlling [Ans. (b) Decision-making]
- 7. \_\_\_\_\_ is the transmission of human thoughts, views or opinions from one person to another person.
  - (a) Communication
- (b) Innovation
- (c) Representation
- (d) Motivation

[Ans. (a) Communication]

- 8. \_\_\_\_\_ helps the regulation of job and co-ordinates the activities.
  - (a) Innovation
- (b) Communication
- (c) Representation
- (d) Motivation

[Ans. (b) Communication]

#### IV. PICK THE ODD ONE OUT.

- 1. (a) Planning
- (b) Organising
- (c) Authority
- (d) Staffing

[Ans. (c) Authority]

**Reason:** Authority means the right of a superior to give the order to his subordinates. Other three are main functions of management.

- **2.** (a) Innovation
- (b) Representation
- (c) Communication
- (d) Rule of Thumb

[Ans. (d) Rule of Thumb]

**Reason:** Rule of Thumb means decisions taken by manager as per their personal judgments. Other three are the subsidiary functions of management.

## V. Which one of the following is not correctly matched?

- 1. (a) Planning Look before you leap
  - (b) Organising Creation of network
  - (c) Staffing Placement of right persons
  - (d) Directing Size of organisation

[Ans. (d) Directing – Size of organisation]

- **2.** (a) Co-ordination Groupwise or sectionwise
  - (b) Motivation Monetary or nonmonetary incentive
  - (c) Innovation Government officials
  - (d) Decision- Smooth functioning making of an organisation

[Ans. (c) Innovation – Government officials]

#### VI. CONSIDER THE FOLLOWING STATEMENT.

Assertion (A): Managerial functions are time specific, institution specific and country specific.
 Reason (R): Management functions are called as managerial process.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**2. Assertion** (**A**): Planning is the primary function of management.

**Reason** (**R**): Planning is a constructive reviewing of future needs so that present actions can be adjusted in view of the established goal.

## Sura's XII Std - Commerce

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**3.** Assertion (A): The success of any enterprise depends upon the successful performance of staffing function.

**Reason** (**R**): The goals are achieved with the help of co-ordination.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (c) (A) is true, but (R) is false]

**4. Assertion (A)** : A manager has to act as representative of a company.

**Reason** (R): Manager has dealings with customers, suppliers, government officials and financial institutions etc.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

#### VII. CHOOSE THE CORRECT STATEMENT.

- 1. (i) Staffing function comprises the activities of selection and placement of competent personnel.
  - (ii) Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions.
  - (iii) All the activities are divided groupwise, or sectionwise under organising function.

## Sura's XII Std - Commerce

- (a) (i) is correct
- (b) (i) and (ii) are correct
- (c) (ii) and (iii) are correct
- (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

- 2. (i) The difficulty of co-ordination depends upon the size of organisation.
  - (ii) Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers.
  - (iii) Consumers are satisfied through motivation.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (ii) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (b) (i) and (ii) are correct]

- 3. (i) Every employee of an organisation has to take a number of decisions everyday.
  - (ii) Communication helps the regulation of job and co-ordinate the activities.
  - (iii) Planning is not a main function.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (i) and (ii) are correct
  - (d) (iii) is correct

[Ans. (c) (i) and (ii) are correct]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

1. How can you classify the managerial functions?

**Ans.** Managerial functions are:

- (i) Time specific
- (ii) Institutional specific; and
- (iii) Country specific.
- 2. "Look before you Leap is the proverb. Which function of management is highlighted here.
- Ans. "Look before you Leap is the traditional proverb, which refers to the management function of planning. Planning refers to deciding in advance.
- 3. What are the managerial functions included in co-ordination?
- **Ans.** (i) Planning and co-ordination
  - (ii) Organising and co-ordination

- (iii) Staffing and co-ordination
- (iv) Directing and co-ordination
- (v) Motivation and co-ordination; and
- (vi) Controlling and co-ordination.
- 4. 'Planning is done for achieving the organisational goals'. Do you agree? Give one reason in support your answer.
- Ans. Yes, planning involves setting of objectives and determining the most economical and viable alternative to achieve the goals.
- 5. Is directing necessary at planning stage? Give reason in support of your answer.
- **Ans.** No, directing is not necessary at planning stage, it is necessary at execution / operational stage.

#### III. Short Answer Questions. 3 Marks

- 1. 'Selection is a negative Process'. Do you agree?
- Ans. (i) Yes, as selection is choosing from among the candidates the ones, who best meet a position's requirements and eliminating the ones who are not suitable.
  - (ii) To achieve this target, candidates are required to take a series of tests and interviews in different stages.
  - (iii) At each stage, many candidates are eliminated and only a few candidates move to the next stage.
  - (iv) The process of elimination continues till the right ones are finalised.
  - (v) The above scenario clearly establishes the fact that selection is the process, through which unsuitable candidates are rejected and suitable ones are chosen.
  - (vi) Therefore, it is regarded as negative process.
- 2. 'Controlling is Systematic Process involving a series of steps'. Do your agree? Discuss it briefly.
- **Ans.** Yes, controlling is a systematic process which involves following steps.
  - (i) Setting performance standards.
  - (ii) Measurement of actual performance
  - (iii) Comparing actual performance with standards.
  - (iv) Analysing deviations
  - (v) Taking corrective action



for Full Book Order online and Available at all Leading Bookstores

CHAPTER

## MANAGEMENT BY OBJECTIVES (MBO) MANAGEMENT BY **EXCEPTION (MBE)**

#### CHAPTER SNAPSHOT

- 3.1 Meaning and Definition of MBO
- 3.2 Objectives of MBO
- 3.3 Features of MBO
- 3.4 Process of MBO
- 3.5 Advantages of MBO
- 3.6 Disadvantages of MBO
- 3.7 Meaning of MBE
- 3.8 Process of MBE
- 3.9 Advantages of MBE
- 3.10 Disadvantages of MBE

## EXERCISE

I	CHOOSE THE CORR	ECT ANSWERS. 1 MARK	(-) MDA	(L) MDE
1.	CHOOSE THE CORR	Let mywens. I Mark	(a) MBA	(b) MBE
			(c) MBM	(d) MBO
1.	Syste	em gives full Scope to the		[Ans. (b) MBE]
		h and Responsibility.	4. Delegation of A	uthority is Easily Done with
	(a) MBO	(b) MBE	41. 11.1	• •
	(c) MBM	(d) MBA	-	·
	(0) 1/12/1	[Ans. (a) MBO]	(a) MBM	(b) MBE
			(c) MBO	(d) MBA
2.	Which is the First	step in Process of MBO?		[Ans. (c) MBO]
	(a) Fixing Key Resi	ult Area		2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2
	(b) Appraisal of Ac	tivities	II. VERY SHORT ANS	wer Questions. 2 Marks

#### **M**ARKS

- Define MBO.
- Ans. Professor Reddin defines MBO establishment of effective standards periodic managerial positions and the conversion of those into measurable time bound objectives linked vertically and horizontally and with future planning".

Critical Problems.

3.

(c) Matching Resources with Activities

(d) Defining Organisational Objectives

[Ans. (d) Defining Organisational Objectives]

Opportunities and Threats by Identifying

keeps Management Alert to

## 🕏 Sura's XII Std - Commerce

#### 2. What are the objectives of MBO?

**Ans.** The objectives of MBO are;

- (i) to measure and judge performance.
- (ii) to relate individual performance to organisational goals.

#### 3. Bring out the meaning of MBE.

Ans. Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norms.

#### 4. Mention any two advantages of MBO.

Ans. The advantages of MBO are

- (i) MBO gives the criteria of performance. It helps to take corrective action.
- (ii) MBO process helps the managers to understand their role in the total organisation.

#### 5. Write any two importance of MBE.

- **Ans. (i)** It saves time manager attends to real problems at a particular point of time.
  - (ii) Qualitative and quantitative yardsticks are provided for judging the current position.

#### 6. What is known as KRA?

- Ans. (i) KRA means Key result areas. Key Result area are fixed on the basis of organisational objectives premises.
  - (ii) Key Result Areas are arranged on a priority basis. KRA indicates the strength of an organisation.
  - (iii) The examples of KRA are profitability, market standing, innovation etc.

#### III. Short Answer Questions. 3 Marks

#### 1. Write the features of MBO.

**Ans.** The features of MBO are:

- (i) An attempt is made by the management to integrate the goals of an organisation and individuals. This will lead to effective management.
- (ii) MBO tries to combine the long run goals of an organisation with short run goals.
- (iii) Management tries to relate the organisation goals with society goals.
- (iv) MBO's emphasis is not only on goals but also on effective performance.

- (v) It increases the organisational capability of achieving goals at all levels.
- (vi) Aims at replacing the exercise of authority with consultations.

#### 2. What are the process involved in MBO?

**Ans.** The process of MBO are:

- (i) Defining Organisational Objectives.
- (ii) Goals of Each Section.
- (iii) Fixing Key Result Areas.
- (iv) Setting subordinate objectives or targets.
- (v) Matching resources with objective.
- (vi) Periodical review meetings.
- (vii) Appraisal of activities.
- (viii) Re-appraisal of objectives.



#### 3. What are the Process of MBE?

- **Ans. (i)** Primarily, it is necessary to set objectives or norms with predictable or estimated results.
  - (ii) These performances are assessed and get equated to the actual performance.
  - (iii) Next, the deviation gets analysed. With an insignificant or no deviation, no action is required and senior managers can concentrate on other matters.
  - (iv) If actual performances deviate significantly, the issue needs to be passed to the senior managers, as an exception has occurred.
  - (v) Finally, the aim is to solve this "exception" immediately.

#### 4. List out any Four process of MBO.

**Ans.** Four process of MBO are

- (i) Defining Organisational Objectives.
- (ii) Goals of Each Section.
- (iii) Fixing Key Result Areas.
- (iv) Setting Subordinate Objectives or Targets.

#### IV. Long Answer Questions.

#### 5 MARKS

#### 1. What are the major advantages of MBO?

**Ans.** The advantages of MBO are

- (i) Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.
- (ii) MBO process helps the managers to understand their role in the total organisation.
- (iii) Manager recognises the need for planning and appreciates the planning.
- (iv) MBO provides a foundation for participative management. Subordinates are also involved in goal setting.
- (v) A department does not work at cross purpose with another department.
- (vi) Systematic evaluation of performance is made with the help of MBO.
- (vii) MBO gives the criteria of performance. It helps to take corrective action.
- (viii) Delegation of authority is easily done with the help of MBO.
- (ix) MBO motivates the workers by job enrichment and makes the jobs meaningful.
- (x) The responsibility of a worker is fixed through MBO.

#### 2. What are the advantages of MBE?

Ans. Management by exception provides the following advantages.

- (i) It saves the time of managers because they deal only with exceptional matters. Routine problems are left to subordinates.
- (ii) It focuses managerial attention on major problems. As a result, there is better utilisation of managerial talents and energy.
- (iii) It facilitates delegation of authority. Top management concentrates on strategic decisions and operational decisions are left to the lower levels.
- (iv) It is a technique of separating important information from unimportant one. It

## Sura's XII Std - Commerce

- forces managers to review past history and study related business data for identifying deviations.
- (v) MBE keeps management alert to opportunities and threats by identifying critical problems. It can avoid uninformed and impulsive action.
- (vi) Management by exception provides better yardsticks for judging results. It is helpful in objective performance appraisal.

#### 3. Explain the various disadvantages of MBO.

**Ans.** The disadvantages of MBO are:

- (i) MBO fails to explain the philosophy; most of the executives do not know how MBO works? What is MBO? and why is MBO necessary? and how participants can benefit by MBO?
- (ii) MBO is a time consuming process. Much time is needed by senior people for framing the MBO. Next, it leads to heavy expenditure and also requires heavy paper work.
- (iii) MBO emphasises only on short-term objectives and does not consider the long-term objectives.
- (iv) The status of subordinates is necessary for proper objectives setting. But, this is not possible in the process of MBO.
- (v) MBO is rigid one. Objectives should be changed according to the changed circumstances, external or internal. If it is not done, the planned results cannot be obtained.

#### 4. Discuss the disadvantages of MBE.

- Ans. (i) The main disadvantage of MBE is, only managers have the power over really important decisions, which can be demotivating for employees at a lower level.
  - (ii) Furthermore, it takes time to pass the issues to managers.
  - (iii) Managing employees who deviate from the normal procedures.
  - (iv) Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.



#### Additional Questions and Answers

#### I. Choose the Correct Answers. 1 Mark

- I. CHOOSE THE CORRECT ANSWERS.
- 1. What is MBO?
  - (a) Managerial Business objects
  - (b) Management by objectives
  - (c) Management by organisation
  - (d) Management of Business organisation

    [Ans. (b) Management by objectives]
  - MBO is popularised in
  - (a) USA
- (b) Japan
- (c) India (d) UK

[Ans. (a) USA]

- 3. MBO is a/an
  - (a) Philosophy
- (b) training
- (c) principle
- (d) management system

[Ans. (d) management system]

- 4. MBE reefers to
  - (a) Management by efficiency
  - (b) Management by extraordinary
  - (c) Management by exception
  - (d) Management by objectives

[Ans. (c) Management by exception]

- 5. Systematic evaluation of performance is made with the help of
  - (a) MBO
- (b) KRA
- (c) MBE
- (d) MBA

[Ans. (a) MBO]

- 6. Management by objective is
  - (a) goal oriented
- (b) work oriented
- (c) Both
- (d) none of these

[Ans. (a) goal oriented]

- 7. Third step in process of management by objectives is to
  - (a) review job and agreement
  - (b) develop performance standards
  - (c) guide setting of objective
  - (d) ongoing performance discussion

[Ans. (c) guide setting of objective]

- 8. Second step in process of management by objectives is to
  - (a) guided setting of objective
  - (b) Ongoing performance discussion
  - (c) review job and agreement
  - (d) develop performance standards

[Ans. (d) develop performance standards]

- 9. Target coaching, work planning, mutual goal setting and performance objectives are all terms used to specify concept called
  - (a) behavioural rating approach
  - (b) management by objectives
  - (c) combination method
  - (d) critical incident method

[Ans. (b) management by objectives]

- 10. Management by objective (MBO) is also known as
  - (a) Management by results
  - (b) Management by goals
  - (c) Management by planning
  - (d) Management by evaluation

[Ans. (a) Management by results]

- 11. Management by objective is a
  - (a) Set of rules
  - (b) Series of procedure
  - (c) Way of thinking about management
  - (d) All of the above

[Ans. (d) All of the above]

- 12. In, Management by objective, (MBO) the manager and subordinate jointly.
  - (a) Identify Common goals
  - (b) Defines each individual's major areas of responsibility
  - (c) Access the contribution of each of its member
  - (d) All of the above

[Ans. (d) All of the above]

#### 13. Objectives are decided by

- (a) Superior
- (b) Subordinates
- (c) Mutual consultations of both superior and subordinates
- (d) None of these

## [Ans. (c) Mutual consultations of both superior and subordinates]

- 14. The following is/are the disadvantage(s) of Management by objective (MBO)
  - (a) Inflexibility
  - (b) Lack of relevant skill
  - (c) Lack of individual motivation
  - (d) All of the above

[Ans. (d) All of the above]

#### II. MATCH THE FOLLOWING.

1.	List I		List II	
	i)	Reappraisal of objectives	1)	Technical personnel or scarce raw material
	ii)	Appraisal of activities	2)	Market standing, innovation
	iii)	Matching resources	3)	Discussion between superior and subordinates
	iv)	Key results area	4)	Short period

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 4 3 1 2
- (c) 2 3 4 1
- (d) 3 4 1 2

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

#### III. CHOOSE AND FILL IN THE BLANKS.

- harmonises the goal of an individual with the organisation's goal.
  - (a) MBO
- (b) MBE
- (c) MBA
- (d) MBM

[Ans. (a) MBO]

## Sura's XII Std - Commerce

- 2. \_\_\_\_\_ are fixed on the basis of orgnaisational objectives premises.
  - (a) MBA
- (b) MBE
- (c) KRA
- (d) MBM

[Ans. (c) KRA]

- 3. \_\_\_\_ indicates the strength of an organisation.
  - (a) MBO
- (b) KRA
- (c) MBA
- (d) MBE

[Ans. (b) KRA]

- 4. \_\_\_\_ are induced to set standards themselves by giving an opportunity.
  - (a) Superior
- (b) Subordinates
- (c) Both
- (d) None of these

[Ans. (b) Subordinates]

- 5. \_\_\_\_\_ should take corrective action.
  - (a) Superior
- (b) Subordinate
- (c) Customer
- (d) Supplier

[Ans. (a) Superior]

- 6. An \_\_\_\_\_ is a part of the dynamic world.
  - (a) Organisation
- (b) Land
- (c) Labour
- (d) Capital

[Ans. (a) Organisation]

- 7. \_\_\_\_\_ provides a foundation for participative management.
  - (a) MBE
- (b) MBO
- (c) MBM
- (d) MBA

[Ans. (b) MBO]

8. \_\_\_\_\_ is easily done with the help of

#### MBO.

- (a) Chain of command
- (b) Unity of direction
- (c) Delegation of authority
- (d) Unity of control

[Ans. (c) Delegation of authority]

- 9. \_\_\_\_\_ is taken by the management very quickly.
  - (a) Decision
- (b) Planning
- (c) Motivation
- (d) Staffing

[Ans. (a) Decision]

## 👣 Sura's XII Std - Commerce

- 10. \_\_\_\_\_\_ is a time consuming process.

  (a) MBE
  (b) KRA
  (c) MBO
  (d) None of these

  [Ans. (c) MBO]

  11. \_\_\_\_\_ has both a general business
- 11. \_\_\_\_\_ has both a general business application and a business intelligence application.
  - (a) MBO
- (b) MBE
- (c) HRA
- (d) MBA

[Ans. (b) MBE]

- 12. \_\_\_\_\_ focuses managerial attention on major problems.
  - (a) MBA
- (b) HRA
- (c) MBE
- (d) MBO

[Ans. (c) MBE]

- 13. \_\_\_\_\_ can avoid uniformed and impulsive action.
  - (a) MBO
- (b) MBE
- (c) KRA
- (d) HRM

[Ans. (b) MBE]

- 14. \_\_\_\_\_ is also known as management by result.
  - (a) Management by objectives
    - (b) Management by art
    - (c) Management by subordinate
    - (d) Management by planning

[Ans. (a) Management by objectives]

- 15. Objectives are the \_\_\_\_\_ of Management action.
  - (a) design
- (b) end point
- (c) starting points
- (d) planning

[Ans. (b) end point]

- IV. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?
- 1. (a) MBO Management By Objectives
  - (b) MBE Management By Exception
  - (c) KRA Key Results Area
  - (d) MBO Management By Organisation

[Ans. (d) MBO – Management By Organisation]

- 2. (a) Organisational top level Objectives - top level employees
  - (b) Goals or Meaningful objectives manner
  - (c) Appraisal of Frank discussion activities
  - (d) KRA Market, standing, innovation

[Ans. (c) Appraisal of activities – Frank discussion]

#### V. Consider the following statement.

1. Assertion (A): Management By Objectives is a management system in which each member of the organisation effectively participates and involves himself.

**Reason** (**R**): MBO is popularised in the USA by George odiorne.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**2. Assertion** (**A**): MBO increases the organisational capability of achieving goals at all levels.

**Reason** (**R**): Goals or objectives are expressed in a meaningful manner.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**3. Assertion** (A): The objectives of each subordinate or individual are fixed.

**Reason** (**R**): It is preferable to fix the objectives at lower level in quantitative units.

## (a) Both (A) and (R) are true and (R) is the correct explanation of (A).

- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

#### [Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**4. Assertion** (**A**): Manager recognises the need for planning and appreciates planning.

**Reason** (R): Decision is taken by the management very slowly.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

#### [Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

5. Assertion (A): Management by exception is an important principle of managerial control suggested by the classical writers on management.

**Reason** (R): It is based on the belief that an attempt to control everything results in controlling nothing.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

#### VI. CHOOSE THE CORRECT STATEMENT.

- 1. (i) MBO creates self-control and motivates the manager into action before somebody tells his to do something.
  - (ii) MBO tries to combine the long run goals of organisation with short run goals.
  - (iii) A high degree of motivation and satisfaction is available to employees through MBO.

## Sura's XII Std - Commerce

- (a) (i) is correct
- (b) (ii) is correct
- (c) (i) and (ii) are correct
- (d) (i), (ii) and (iii) are correct

#### [Ans. (d) (i), (ii) and (iii) are correct]

- 2. (i) Objectives for each section, department or division are framed on the basis of overall objectives of the organisation.
  - (ii) Key Result Areas are arranged on a priority basis.
  - (iii) Delegation of authority is easily done with the help of MBE.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (ii) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

#### [Ans. (b) (i) and (ii) are correct]

- 3. (i) The objectives are framed on the basis of availability of resources.
  - (ii) The subordinates should take corrective action.
  - (iii) At the end of the fixed period for achieving the objectives, there should be a discussion between the superior and subordinates.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (i) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

#### [Ans. (c) (i) and (iii) are correct]

- 4. (i) MBO motivates the workers by job enrichment and makes the jobs meaningful.
  - (ii) The status of subordinate is necessary for proper objectives setting.
  - (iii) Objectives should be changed according to the changed circumstances, external or internal.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (i) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

## Sura's XII Std - Commerce

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. How are organisational objectives framed?

- **Ans.** Initially, organisational objectives are framed by the top level employees of an organisation. Then it moves downwards.
- 2. The production manager establishes a quality control standards where in five defects are permissible for every 100 units. What is the management principle highlighted here?
- **Ans.** Management by Exception.
- 3. Who popularise MBO?

Ans. George Odiorne.

- 4. What do you mean by MBO?
- Ans. MBO is a management system in which each member of the organisation effectively participates and involves himself. This system gives full scope to the individual strength and responsibility. MBO harmonises the goal of an individual with the organisation's goal.

#### III. Short Answer Questions. 3 Marks

#### 1. What are the objectives of MBO?

Ans. Management by objectives is intended primarily

- (i) to measure and judge performance
- (ii) to relate individual performance to organisational goals.
- (iii) to clarify both the job to be done and the expectations of accomplishment.
- (iv) to foster the increasing competence and growth of the subordinates.
- (v) to serve as a basis for judgements about salary and promotion.
- (vi) to stimulate the subordinates' motivation
- (vii) to serve as a device for organisational control and integration.

#### IV. Long Answer Questions. 5 Marks

#### L. Explain the process of MBO. (Any seven)

**Ans.** The process of MBO is explained below:

- (i) Defining Organisational Objectives:
  Initially, organisational objectives are framed by the top level employees of an organisation. The definition of organisational objectives states why the business is started and exists.
- (ii) Goals of Each Section: Objectives for each section, department or division are framed on the basis of overall objectives of the organisation. Goals or objectives are expressed in a meaningful manner.
- (iii) Fixing Key Result Areas: Key result areas are fixed on the basis of organisational objectives premises. Key Result Areas (KRA) are arranged on a priority basis. KRA indicates the strength of an organisation.
- (iv) Setting Subordinate Objectives or Targets: The objectives of each subordinate or individual are fixed. It is preferable to fix the objectives at lower level in quantitative units. There should be a free and frank discussion between the superior and his subordinates.
- (v) Matching Resources with Objective:

  The objectives are framed on the basis of availability of resources. If certain resources (technical personnel or scarce raw material) are not adequately available, the objectives of an organisation are changes accordingly.
- (vi) Periodical Review Meetings: The superior and subordinates should hold meetings periodically in which they discuss the progress in the accomplishment of objectives.
- (vii) Appraisal of Activities: At the end of the fixed period for achieving the objectives, there should be a discussion between the superior and subordinates.



# UNIT II

## FINANCIAL MARKETS – I

CHAPTER

4

INTRODUCTION TO FINANCIAL MARKETS

#### **CHAPTER SNAPSHOT**

- 4.1 Meaning and Definition of Financial Market
- 4.2 Scope of Indian Financial Market
- 4.3 Types of Financial Markets
- 4.4 Role of Financial Market
- 4.5 Functions of Financial Markets
- 4.6 New Issue Market (NIM) Vs. Secondary Market

#### EXERCISE

#### I. Choose the Correct Answers. 1 Mark

- 1. Financial market facilitates business firms
  - (a) To rise funds
  - (b) To recruit workers
  - (c) To make more sales
  - (d) To minimize fund requirement

[Ans. (a) To rise funds]

- 2. Capital market is a market for
  - (a) Short Term Finance
  - (b) Medium Term Finance
  - (c) Long Term Finance
  - (d) Both Short Term and Medium Term Finance

[Ans. (c) Long Term Finance]

- 3. Primary market is also called as
  - (a) Secondary market
- (b) Money market
- (c) New Issue Market
- (d) Indirect Market
- [Ans. (c) New Issue Market]
- Spot Market is a market where the delivery of the financial instrument and payment of cash occurs
  - (a) Immediately
- (b) In the future
- (c) Uncertain
- (d) After one month [Ans. (a) Immediately]

- 5. How many times a security can be sold in a secondary market?
  - (a) Only one time
- (b) Two time
- (c) Three times
- (d) Multiple times

[Ans. (d) Multiple times]

## Sura's XII Std - Commerce

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

- 1. What are the components of organized sectors?
- **Ans.** Organised sector consist of Regulators, Financial Institutions, Financial markets and Financial services.
- 2. Write a note on financial market.
- **Ans.** A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'.
- 3. What is equity market?
- **Ans.** Equity Market is the financial market for trading in Equity Shares of Companies.
- 4. What is debt market?
- **Ans.** Debt Market is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, Corporate Debentures or Bonds).
- 5. How is prize decided in a secondary market?
- Ans. Secondary markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers. They provide a signal for the allocation of funds in the economy, based on the demand and supply, though the mechanism called price discovery processes

#### III. Short Answer Questions. 3 Marks

- 1. Give the meaning and definition of financial market.
- Ans. Meaning: A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'. In another words, financial markets may be channels through which flow loanable funds directed from a supplier who has an excess of assets toward a demander who experiences a deficit of funds.

**Definition :** According to Brigham, Eugene F "The place where people and organizations wanting to borrow money are brought together with those having surplus funds is called a financial market".

#### 2. Differentiate spot market from future market.

- Ans. (i) Spot market is a market where the delivery of the financial instrument and payment of cash occurs immediately i.e. settlement is completed immediately. Whereas Futures market is a market where the delivery of assets and payment of cash takes place at a per-determined time in future.
  - (ii) Spot market is also known as cash market. But Futures market is also known as Forward market.
- 3. Write a note on Secondary Market.
- Ans. (i) Secondary market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here.
  - (ii) The trading takes place between investors who follow the original issue in the primary market.
  - (iii) It covers both stock exchange and over the counter market.
- 4. Bring out the scope of financial market in India.
- Ans. (i) The financial market provides financial assistance to individuals, agricultural sectors, industrial sectors, service sectors, financial institutions like banks, insurance sectors, provident funds and the government as a whole.
  - (ii) With the help of the financial market all the above stated individuals, institutions and the Government can get their required funds in time.
  - (iii) Through the financial market the institutions get their short term as well as long term financial assistance.
  - (iv) It leads to the overall economic development.

#### IV. Long Answer Questions. 5 Marks

1. Distinguish between new issue market and secondary market.

#### Ans.

S. No	Basis of Comparison	New Issue Market	Secondary Market
1.	Meaning	The market place for new shares is called primary market.	The place where formerly issued securities are traded is known as Secondary market.
2.	Buying	Direct	Indirect
3.	Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification.	It does not provide funding to companies.
4.	Buying and selling between	Company and Investors	Investors
5.	Gained person	Company	Investors
6.	Intermediary	Underwriters	Brokers
7.	Price	Fixed price	Fluctuates, depends on the demand and supply

## 2. Enumerate the different kinds of financial markets.

force.

**Ans.** Financial markets can be classified in different ways. They are as follows

- (i) On the basis of type of financial claim
  - (a) Debt market
  - **(b)** Equity market
- (ii) On the basis of maturity of financial claim
  - (a) Money market
  - (b) Capital market

## Sura's XII Std - Commerce

- (iii) On the basis of time of issue of financial claim
  - (a) Primary market
  - (b) Secondary market
- (iv) On the basis of time of delivery of financial claim
  - (a) Cash / Spot market
  - (b) Forward or Future market
- (v) On the basis of organisational structure of the financial market
  - (a) Exchange traded market
  - (b) Over the counter market

#### 3. Discuss the role of financial market.

Ans. One of the important requisites for the accelerated development of an economy is the existence of a dynamic and a resilient financial market. A financial market is of great use for a country as it helps the economy in the following manner.

#### (i) Savings Mobilization:

Obtaining funds from the savers or surplus units such as household individuals, business firms, public sector units, government is an important role played by financial markets.

#### (ii) Investment:

Financial market plays a key role in arranging the investment of funds thus collected, in those units which are in need of the same.

#### (iii) National Growth:

Financial markets contribute to a nation's growth by ensuring an unfettered flow of surplus funds to deficit units. Flow of funds for productive purposes is also made possible. It leads to overall economic growth.

#### (iv) Entrepreneurship Growth:

Financial markets contribute to the development of the entrepreneurial class by making available the necessary financial resources.

#### (v) Industrial Development:

The different components of financial markets help an accelerated growth of industrial and economic development of a country and thus contributing to raising the standard of living and the society's well-being.

- 4. What are the functions of Financial Markets?
- **Ans.** The financial market two functions:
  - I. Intermediary Functions
  - II. Financial Functions
  - I. Intermediary Functions: The intermediary functions of a financial market include the following
    - (i) Transfer of resources: Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.
    - (ii) Enhancing Income: Financial markets allow lenders earn interest / dividend on their surplus investible funds and thus contributing to the enhancement of the individual and the national income.
    - (iii) Productive Usage: Financial markets allow for the productive use of the funds borrowed and thus enhancing the income and the gross national production.
    - (iv) Capital Formation: Financial markets provide a channel through which new savings flow to aid capital formation of a country.
    - (v) Sale Mechanism: Financial market provides a mechanism for selling of a financial asset by an investor so as to offer the benefits of marketability and liquidity of such assets.
    - (vi) Information: The activities of the participants in the financial market result in the generation and the consequent dissemination of information to the various segments of the markets, so as to reduce the cost of transaction of financial assets.
  - **II. Financial Functions**: The financial functions of a financial market include the following:
    - (i) Providing the borrowers with funds so as to enable them to carry out their investment plans.
    - (ii) Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in productive ventures.
    - (iii) Providing liquidity in the market so as to facilitate trading of funds.

- 5. Discuss the various types of Financial markets.
- **Ans.** Financial markets can be classified in different ways. They are as follows:
  - (i) On the Basis of Type of Financial Claim:
    - (a) Debt Market: Debt market is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, corporate Debentures or Bonds).
    - **(b) Equity Market :** Equity market is the financial market for trading in Equity Shares of Companies.
  - (ii) On the Basis of Maturity of Financial Claim:
    - (a) Money Market: Money market is the market for short term financial claim (usually one year or less) Example: Treasury Bills, Commercial Paper, Certificates of Deposit
    - (b) Capital Market: Capital market is the market for long term financial claim more than a year Example: Shares and Debentures
  - (iii) On the Basis of Time of Issue of Financial Claim:
    - (a) Primary Market: Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers (companies). Here the money from investors goes directly to the issuers.
    - (b) Secondary Market: Secondary market is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.
  - (iv) On the Basis of Timing of Delivery of Financial Claim
    - (a) Cash/Spot Market: Cash or Sport market is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.
    - (b) Forward or Futures Market: Forward or futures market is a market where the delivery of asset and payment of cash takes place at a pre-determined time in future.

- (v) On the Basis of the Organizational Structure of the Financial Market:
  - (a) Exchange Traded Market: Exchange traded market is a centralized organization (stock exchange) with standardized procedures.
- (b) Over-the-Counter Market: Over the counter market is a decentralized market (outside the stock exchange) with customized procedures.

#### ADDITIONAL QUESTIONS AND ANSWERS

#### I. Choose the Correct Answers. 1 Mark

#### I. Choose the Correct option.

- 1. Primary and secondary markets
  - (a) compete with each other
  - (b) complement each other
  - (c) function independently
  - (d) control each other

[Ans. (b) complement each other]

- 2. Treasury Bill is basically
  - (a) An instrument to borrow short-term funds
  - (b) An instrument to borrow long-term funds
  - (c) An instrument of capital market
  - (d) None of the above

[Ans. (a) An instrument to borrow short-term funds]

- 3. In primary markets, first time issued shares to be publicly traded, in stock markets is considered as
  - (a) traded offering
- (b) Public markets
- (c) issuance offering offering
- (d) initial public

[Ans. (d) initial public offering]

- 4. In primary markets, property of shares which made it easy to sell newly issued security is considered as
  - (a) increased liquidity
  - (b) decreased liquidity
  - (c) money flow
  - (d) large funds [Ans. (a) increased liquidity]
- Money market where debit and stocks are traded and maturity period is more than a year is classified as
  - (a) shortterm markets
  - (b) longterm markets
  - (c) capital markets
  - (d) None of these [Ans. (c) capital markets]

- 6. Type of structured market through which funds flow with help of financial instruments such as bonds and stocks is classified as
  - (a) financial markets
- (b) flow market
- (c) funds market
- (d) capital market

[Ans. (a) financial markets]

- 7. The first issues are floated in
  - (a) Primary market
  - (b) Secondary market
  - (c) Commodity market
  - (d) Regulated market

[Ans. (a) Primary market]

- 8. Type of market in which securities with less than one year maturity are traded, is classified as
  - (a) money market
- (b) capital market
- (c) transaction market
  - ket (d) global market

[Ans. (a) money market]

- Process of selling and buying of stocks and bonds is classified as
  - (a) e-trade
- (b) stock trade
- (c) both 'a' and 'b'
- (d) none of these

[Ans. (a) e-trade]

II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.		List I		List II
	i)	Organised sector	1)	Corporate debentures
	ii)	Unorganised sector	2)	Equity shares of companies
	iii)	Debt market	3)	Indigenous bankers
	iv)	Equity market	4)	Financial institutions

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 4 3 1 2
- (c) 2 3 1 4 (d) 3 4 2 1

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

#### 2. List I List II i) Money market 1) Stock exchange ii) Capital market 2) Sale of securities Debentures iii) Primary market 3) iv) Secondary 4) Treasury Bills market

#### Codes:

3

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 2 3 1 4 (c) 3 4 1 2
- (c) 3 4 1 2 (d) 4 3 2 1

[Ans. (d) (i)-4; (ii)-3; (iii)-2; (iv)-1]

	List I		List II
i)	Savings Mobilization	1)	Flow of funds
ii)	National Growth	2)	Government securities
iii)	Marketable assets	3)	Pension funds
iv)	Non-marketable assets	4)	Household individuals

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 4 1 2 3
- (b) 1 2 3 4
- (c) 2 3 4 1
- (d) 3 4 1 2

[Ans. (a) (i)-4; (ii)-1; (iii)-2; (iv)-3]

#### III. CHOOSE AND FILL IN THE BLANKS.

- 1. \_\_\_\_\_ is an institution or arrangement that facilitates the exchange of financial instruments.
  - (a) Financial Market
  - (b) Capital market
  - (c) Organised sector
  - (d) Unorganised sector

[Ans. (a) Financial Market]

- is the financial market for trading in debt instrument that is government bonds or securities.
  - (a) Equity market
- (b) Debt market
- (c) Money market
- (d) Capital market

[Ans. (b) Debt market]

- 3. \_\_\_\_\_ is the market for short term financial claim.
  - (a) Debt market
- (b) Equity market
- (c) Money market
- (d) Capital market

[Ans. (c) Money market]

- 4. \_\_\_\_ market is the market for long term financial claim more than a year.
  - (a) Primary market
  - (b) Secondary market
  - (c) Equity market
  - (d) Capital market

[Ans. (d) Capital market]

- 5. \_\_\_\_\_ is the market for securities that are already issued.
  - (a) Primary market
  - (b) Secondary market
  - (c) Debt market
  - (d) Equity market

[Ans. (b) Secondary market]

- 6. \_\_\_\_\_ for productive purposes is also made possible.
  - (a) Saving mobilization (b) Investment
  - (c) Flow of funds
- (d) None of these

[Ans. (c) Flow of funds]

- 7. Financial intermediation is the process that the financial intermediaries connect \_\_\_\_\_ and \_\_\_\_\_ by transferring funds from one side to another.
  - (a) Banks and account holders
  - (b) Borrowers and securities firms
  - (c) Borrowers and lenders
  - (d) Investors and lenders

[Ans. (c) Borrowers and lenders]

#### IV. PICK THE ODD ONE OUT.

- 1. (a) Debt market
  - (b) Secondary market
  - (c) Equity share
  - (d) Future market [Ans. (c) Equity share]

**Reason :** Those shares which are not called as preference share are known as Equity share. Other three are types of financial markets.

- **2.** (a) Capital formation
  - (b) Sale mechanism
  - (c) Information
  - (d) Money market [Ans. (d) Money market]
    Reason: Money market is the market for short
    term financial claim. Other three are functions
    of financial markets.

## V. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

- 1. (a) Debt market Bonds
  - (b) Money market Commercial paper
  - (c) Capital market Stock exchange
  - (d) Equity market Equity shares of companies

#### [Ans. (c) Capital market – Stock exchange]

- (a) Secondary Stock exchange market
  - (b) Marketable Shares of listed companies
  - (c) Non-marketable Bank deposits assets
  - (d) Money market Government Bonds

[Ans. (d) Money market – Government Bonds]

#### VI. CONSIDER THE FOLLOWING STATEMENT.

1. Assertion (A): Government need funds to provide goods and services to the people.

Reason (R): Financial market facilitates business firms as well as governments to raise the needed funds by issuing an selling different instruments. Select the correct answer.

## Sura's XII Std - Commerce

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**2. Assertion** (**A**): Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.

**Reason** (R): Financial market plays a key role in arranging the investment of funds thus collected, in those units which are in need of the same.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**3. Assertion** (A): Marketable assets are those which can be easily transferred from one person to another without much hindrance.

**Reason** (R): Shares of listed companies and government securities are the examples of marketable assets.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

#### VII. CHOOSE THE CORRECT STATEMENT:

- 1. (i) Business firms need large funds to undertake a desired project.
  - (ii) Financial market also helps investors to facilitate them to invest surplus funds and earn a return.
  - (iii) The Indian financial system can be broadly classified into organized sector and unorganized sector.

- (a) (i) is correct
- (b) (i) and (ii) are correct
- (c) (ii) and (iii) are correct
- (d) (i), (ii) and (iii) are correct

#### [Ans. (d) (i), (ii) and (iii) are correct]

- 2. (i) Unorganized sector consist of Regulators, Financial institutions, Financial Markets and financial services.
  - (ii) The organised sector consists of Money lenders, Indigenous Bankers etc.
  - (iii) The financial system facilitates the flow of funds from the suppliers to the users.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (iii) is correct
  - (d) (i), (ii) and (iii) are correct

#### [Ans. (c) (iii) is correct]

- 3. (i) Equity market is the financial market for trading in equity shares of companies.
  - (ii) Stock exchange is an important institution in the secondary market.
  - (iii) Exchange Traded Market is a centralized organisation (stock exchange) with standardized procedures.
  - (a) (i) is correct
  - (b) (ii) and (iii) are correct
  - (c) (ii) is correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. What is money market?

**Ans.** Money market is the market for short term financial claim. (E.g) Treasury Bills, Commercial paper, Certificates of Deposit.

#### . What do you mean by capital market?

**Ans.** Capital Market is the market for long term financial claim more than a year. (E.g) Shares, Debentures.

#### III. SHORT ANSWER QUESTIONS. 3 MARKS

- 1. Write a short note on
  - (a) Primary market (b) Secondary market

#### Ans. (a) Primary market:

- (i) Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers.
- (ii) Here the money from investors goes directly to the issuers.
- (b) Secondary market:
  - (i) Secondary market is the market for securities that are already issued.
  - (ii) Stock exchange is an important institution in the secondary market.
- 2. Explain the classification of financial assets.
- Ans. Financial assets can be classified differently under different circumstances. One such classification is:
  - (i) Marketable assets
  - (ii) Non-marketable assets
  - (i) Marketable Assets:
    - (a) Marketable assets are those which can be easily transferred from one person to another without much hindrance.
    - (b) Example: Shares of Listed companies, Government securities, Bonds of Public sector undertakings etc.
  - (ii) Non-marketable Assets:
    - (a) If the assets cannot be transferred easily, they come under this category.
    - (b) Example: Bank deposits, Provident funds, Pension funds, National savings Certificates, Insurance policies etc.



**CHAPTER** 

5

## **CAPITAL MARKET**

#### CHAPTER SNAPSHOT

- 5.1 Meaning and Definition
- 5.2 Characteristics of Capital Market
- 5.3 Kinds of Capital Market
- 5.4 Functions and Importance of Capital Market
- 5.5 Indian Capital Market Evolution and Growth
- 5.6 New Financial Institutions

### EXERCISE

#### I. Choose the Correct Answers. 1 Mark

- 1. Capital market do not provide
  - (a) Short term Funds
  - (b) Debenture Funds
  - (c) Equity Funds
  - (d) Long term Funds

[Ans. (a) Short term Funds]

- 2. When the NSEI was established
  - (a) 1990
- (b) 1992
- (c) 1998
- (d) 1997

[Ans. (b) 1992]

- 3. Primary market is a Market where securities are traded in the
  - (a) First Time
- (b) Second Time
- (c) Three Time
- (d) Several Times

[Ans. (a) First Time]

- 4. Participants in the capital market includes
  - (a) Individuals
- (b) Corporate
- (c) Financial Institutions (d) All of the above

[Ans. (d) All of the above]

- 5. How many times a security can be sold in a secondary market?
  - (a) Only One Time
- (b) Two Time
- (c) Three Times
- (d) Multiple Times

[Ans. (d) Multiple Times]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. What is Capital Market?

Ans. Capital market is a market where buyers and sellers engage in trade of financial securities like bonds and stocks. The buying and selling is undertaken by participants such as individuals and institutions.

#### 2. Write a note on OTCEI.

- **Ans. (i)** OTCEI means Over The Counter Exchange of India.
  - (ii) The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.
  - (iii) It addresses some specific problems of both investors and medium-size companies.

#### 3. What is Mutual Fund?

Ans. Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual Funds'. Specialised financial institution like LIC, UTI, etc., beside commercial banks such as SBI and Canara Bank are carrying out the business of mutual funds.

#### 4. Who are the participants in a Capital Market?

**Ans.** The participants of the capital market include individuals, corporate sectors, Government, banks and other financial institutions.

#### 5. How is price determined in a Capital Market?

**Ans.** The price of the securities is determined on the demand and supply prevailing in the capital market for securities.

#### III. Short Answer Questions. 3 Marks

## 1. What are the various kinds of Capital Market? Explain.

**Ans.** Capital market is divided into two i.e. primary market and secondary market.

#### (i) Primary Market:

- (a) Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue Market.
- (b) The primary market deals with those securities which are issued to the public for the first time.
- (c) In the primary market, borrowers exchange new financial securities for long term funds.

#### (ii) Secondary Market:

- (a) Secondary Market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here.
- (b) The trading takes place between investors who follow the original issue in the primary market.
- (c) It covers both stock exchange and over-the counter market.

#### 2. Explain any two functions of Capital Market.

**Ans.** The functions of capital market are as follows:

#### (i) Savings and Capital Formation:

- (a) In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Government, etc.).
- (b) The twin features of reasonable return and liquidity in stock exchange are definite incentives to the people to invest in securities.
- (c) This accelerates the capital formation in the country.

#### (ii) Ready and Continuous Market:

- (a) The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.
- (b) Easy marketability makes investment in securities more liquid as compared to other assets.

## 3. Write a note on National Clearance and Depository System (NCDS).

- Ans. Under the scriplesss trading system, settlement of transactions relating to securities takes place through a book entry. The entire scripless trading system comprises the following three segments.
  - (i) National Trade Comparison and Reporting System, which prescribes the terms and conditions of contract for the securities market.
  - (ii) National Clearing System which aims at determining the net cash and stock liability of each broker on a settlement date.
  - (iii) National Depository System, which arranges to provide for the transfer of ownership of securities in exchange on payment by book entry on electronic ledgers without any physical movement of transfer deed.

## **4.** Discuss about evolution and growth of Indian Capital Market.

Ans. (i) The period between 1947 and 1973 marked the development of infrastructure for capital market. During this period, a network of development financial institutions such as IFCI, ICICI, IDBI and UTI, SFCs and SIDCs were established. These financial institutions strengthened the capital market.

- (ii) During the period between 1980 and 1992, debenture emerged as a powerful instrument of resource mobilization in the primary market. The public sector bonds were introduced. A number of stock exchanges came into existence. There was a momentous growth in the secondary market.
- (iii) SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors. New financial services such as credit rating was introduced.
- 5. Explain about Factoring and Venture Capital Institutions.

#### Ans. (i) Factoring Institutions:

- (a) "Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/sale of account receivables.
- (b) The factoring institutions collect the book debts for and on behalf of its clients.
- (c) Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

#### (ii) Venture Fund Institutions:

- (a) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- (b) Venture capital funds bring into force the hi-technology projects which are converted into commercial production.
- (c) They include Risk Capital Foundation of IFCI, Venture Fund of IDBI, SIDBI, Technology Development and Infrastructure Corporation of India (TDICI) and others.

#### IV. Long Answer Questions. 5 Marks

#### 1. Discuss the characters of a Capital Market.

- **Ans.** The characters of a capital market are as follows:
  - (i) Securities Market: The dealings in a capital market are done through the securities like shares, debentures, etc. The capital market is thus called as securities market.
  - (ii) Price: The price of the securities is determined based on the demand and supply prevailing in the capital market for securities.
  - (iii) Participants: There are many players in the capital market. The participants of the capital market include individuals corporate sectors, Government, banks and other financial institutions.
  - (iv) Location: Capital market is not confined to certain specific locations, although it is true that parts of the market are concentrated in certain well-known centers knows as stock exchanges. It has its impact in the overall economy, wherever suppliers and users of capital get together and do business.
  - (v) Market for financial assets: Capital market provides a transaction platform for long term financial assets.

## 2. Briefly explain the functions of capital market. Ans. The capital market functions are as follows:

- (i) Savings and Capital Formation: In capital market, various types of securities help to mobilise savings from various sectors of population like individuals, corporate, government, etc.
- (ii) Permanent Capital: The existence of a capital market/stock exchange enables companies to raise permanent capital.
- (iii) Industrial Growth: The stock exchange is a central market through which resources are transferred to the industrial sector of the economy. The existence of capital market/stock exchange encourages people to invest in productive channels.
- (iv) Ready and Continuous Market: The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.

- (v) Reliable guide to Performance: The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency.
- (vi) Proper channelisation of funds: The prevailing market price of a security and relative yield are the guiding factors for the people to channelize their funds in a particular company.
- (vii) Provision of variety of services: The financial institutions functioning in the capital market provide a variety of services such as grant of long term and medium term loans to entrepreneurs, provision of underwriting facilities, assistance in promotion of companies, participation in equity capital, giving expert advice etc.
- 3. Explain the various types of New Financial Institutions.

#### Ans. (i) Venture Fund Institutions:

- (a) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- (b) Many specialised financial institutions have promoted their own venture capital funds.
- (c) They include Risk Capital Foundation of IFCI, Venture capital of IDBI, SIDBI, TDICI and others.

#### (ii) Mutual Funds:

- (a) Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called "Mutual Funds".
- (b) Specialized financial institutions like LIC, UTI, etc., beside commercial banks such as SBI, and Canara Bank are carrying out the business of mutual funds.

#### (iii) Factoring Institutions:

- (a) "Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/sale of account receivables.
- (b) Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

## (iv) Over the Counter Exchange of India (OTCEI):

- (a) The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.
- (b) It addresses some specific problems of both investors and medium-size companies.

## (v) National Stock Exchange of India Limited:

- (a) NSEI was established in 1992 to function as a model stock exchange.
- (b) The Exchange aims at providing the advantage of nation-wide electronic screen based "scripless" and "floorless" trading system in securities.

## (vi) National Clearance and Depository System (NCDS):

Under the scripless trading system, settlement of transactions relating to securities takes place through a book entry.

## (vii) National Securities Depositories Limited (NSDL):

- (a) The NSDL was set up in the year 1996 for achieving a time bound dematerialisation as well as rematerialisation of shares.
- (b) The establishment of NSDL is expected to alleviate the problems of post trade transactions in the secondary market.



#### ADDITIONAL QUESTIONS AND ANSWERS

#### I. Choose the Correct Answers. 1 Mark

- I. Choose the Correct Answers.
- 1. Rights Issue refers to the shares issued to
  - (a) Employees
- (b) Public
- (c) Existing directors
- (d) Existing shareholders

[Ans. (d) Existing shareholders]

- 2. Which one of the following is not the main functions of a capital market?
  - (a) To mobilise the savings from various sectors of population
  - (b) To enables companies to raise permanent capital
  - (c) To provide employment opportunities for various sectors of the population
  - (d) To encourage the people to invest in productive channels

[Ans. (c) To provide employment opportunities for various sectors of the population]

- 3. Which of the following is the advantage of investment of foreign capital in India?
  - (a) It brings larger industrial profits
  - (b) It reduces our imports
  - (c) It expands our exports
  - (d) It brings in new technical know-how

[Ans. (d) It brings in new technical know-how]

- 4. Which market facilitates capital formations?
  - (a) Primary market
  - (b) Secondary market
  - (c) Debt market
- (d) Money market

[Ans. (a) Primary market]

- 5. The existence of a capital market enables companies to raise
  - (a) capital formation
  - (b) permanent capital
  - (c) industrial growth (d) all of these

[Ans. (b) permanent capital]

- 6. Which markets make possible to generate foreign capital?
  - (a) Primary market
  - (b) Secondary market
  - (c) Money market
- (d) Capital market

[Ans. (d) Capital market]

- 7. NSEI was established in
  - (a) 1990
- (b) 1992
- (c) 1996
- (d) 1998

▲[Ans. (b) 1992]

- 8. The NSDL was set up in the year
  - (a) 1990
- (b) 1992
- (c) 1996
- (d) 1998

[Ans. (c) 1996]

- 9. In capital markets, major suppliers of trading instruments are
  - (a) government and corporations
  - (b) liquid corporations
  - (c) instrumental corporations
  - (d) manufacturing corporations

[Ans. (a) government and corporations]

- 10. Which of the following instruments are traded in capital market?
  - (a) Government agency securities
  - (b) Negotiable bank CDs
  - (c) Repurchase agreements
  - (d) Commercial papers

[Ans. (a) Government agency securities]

- 11. Which of the following does financial services industry consist of?
  - I) Tele communication
  - II) Insurance
  - III) Fund Management
  - IV) Trusts
  - (a) I and II
- (b) III and IV
- (c) I, II and III
- (d) II, III and IV

[Ans. (d) II, III and IV]

II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

ι.		List I		List II
	i)	Capital market	1)	New Issue Market
	ii)	Securities	2)	Resale market
	iii)	Primary market	3)	Debentures
	iv)	Secondary market	4)	Long term funds

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 4 3 1 2
- (c) 2 3 1 4
- (d) 3 4 2 1

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

2.		List I		List II
	i)	Hard commodities	1)	Financial risk
	ii)	Soft commodities	2)	Scripless and floorless
	iii)	Derivatives market	3)	Coffee and sugar
	iv)	NSEI	4)	Rubber and iron

#### Codes:

- (i) (ii) (iii) (iv) 1 2 3 4
- (a) 1 2 3 4
- (b) 4 3 1 2
- (c) 2 3 4 1 (d) 3 2 1 4

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

#### III. CHOOSE AND FILL IN THE BLANKS.

- 1. \_\_\_\_\_ forms an important core of a country's financial system.
  - (a) Capital market
- (b) Financial market
- (c) Money market
- (d) Debt market

[Ans. (a) Capital market]

- 2. Capital market offers an ideal source of \_\_\_\_\_finance.
  - (a) internal
- (b) external
- (c) both
- (d) none of these

[Ans. (b) external]

- 3. Capital market is called \_\_\_\_\_ market.
  - (a) financial
- (b) money
- (c) securities
- (d) debt

[Ans. (c) securities]

- 4. Capital market provides a transaction platform for \_\_\_\_\_\_ term financial assets.
  - (a) long
- (b) short
- (c) medium
- (d) none of these

[Ans. (a) long]

- 5. Capital market is divided into \_\_\_\_\_\_ categories.
  - (a) two
- (b) three
- (c) four
- (d) five

[Ans. (a) two]

- 6. \_\_\_\_\_ market is a market for new issues or new financial claims.
  - (a) Secondary
- (b) Primary
- (c) Money
- (d) Debt

[Ans. (b) Primary]

- 7. \_\_\_\_\_ is a way of selling securities privately to a small group of investors.
  - (a) Public issue
- (b) Rights issue
- (c) Private Placement
- (d) None of these

[Ans. (c) Private Placement]

- 8. \_\_\_\_\_ commodities are raw materials typically mined.
  - (a) Hard
- (b) Soft
- (c) Both
- (d) None of these

[Ans. (a) Hard]

- 9. \_\_\_\_\_ are typically grown agricultural primary products such as wheat and sugar.
  - (a) Hard commodities
- (b) Soft commodities
- (c) Capital markets
- (d) Financial markets

[Ans. (b) Soft commodities]

# CAPITAL MARKET

#### 10. A best efforts offering is sometimes used in connection with a \_\_\_\_\_ of new, long-term securities. (a) Public issue (b) Private placement (c) Privileged subscription (d) all of the above [Ans. (a) Public issue] 11. Financial intermediaries (a) do not invest in new long-term securities (b) include insurance companies and pension funds (c) include the national and regional stock exchanges (d) are usually underwriting syndicates [Ans. (b) include insurance companies and pension funds] 12. Capital market provide funds for projects in areas. (a) backward (b) rural (c) urban (d) none of these [Ans. (a) backward] 13. Stock exchange speculation in shares. (b) discourage (a) does not allow (d) prohibits (c) encourage [Ans. (c) encourage] 14. A cautious speculator is known as \_\_\_ (b) Bull (a) Stag (c) Lame duck (d) Bear [Ans. (a) Stag] 15. Primary market is concerned with \_\_\_\_\_. (a) Increase in shares (b) Decrease in shares (c) Issue of New shares (d) None of these [Ans. (c) Issue of New shares] Secondary market deals with \_\_\_\_\_ traded in primary market.

	🖤 Sura's XII Std - Commerce
17.	Second hand securities are traded in
	(a) Primary market

- (b) Secondary market
- (c) Commodity market
- (d) Regulated market

[Ans. (b) Secondary market]

- 18. There are regional stock exchanges in India.
  - (a) 15 (b) 18
- (c) 20
- (d) 21

[Ans. (d) 21]

- Inclusion of securities in the official list of stock exchange is called \_\_\_
  - (a) Listing
- (b) Unlisting
- (c) Ordered
- (d) None of these

[Ans. (a) Listing]

#### IV. PICK THE ODD ONE OUT.

- (a) Primary market 1.
- (b) Securities market
- (c) Price
- (d) Location

[Ans. (a) Primary market]

Reason: Primary market is a market for new issues or new financial claims. Primary market is a kinds of capital market. Other three are characteristics of capital market.

- (a) Capital formation
- (b) Mutual funds
- (c) Industrial growth
- (d) Foreign capital
- - [Ans. (b) Mutual funds]

Reason: Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual funds'. Other three are functions of capital market.

#### V. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

- (a) Venture Fund Institutions SIDBI
  - (b) Mutual Funds
- (c) Factoring Institutions
- Canara bank

(d) NSEI

-2000

[Ans. (d) NSEI - 2000]

(c) Resale of securities

(a) Purchase of securities (b) Sales of securities

(d) None of these

[Ans. (c) Resale of securities]

- 2. (a) OTCET Over The Counter Exchange of India
  - (b) NSEI National Securities Exchange of India
  - (c) SHCIL Stock Holding Corporation of India Limited
  - (d) NSDL National Securities Depositories
    Limited

[Ans. (b) NSEI-National Securities Exchange of India]

#### VI. CONSIDER THE FOLLOWING STATEMENT.

1. Assertion (A): The term capital market refers to the facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested.

**Reason (R)**: The capital market consists of development banks, commercial banks and stock exchanges.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**2. Assertion (A)**: Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.

**Reason (R)**: Many specialised financial institutions have promoted their own venture capital funds.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

- **3.** Assertion (A): The factoring institutions collect the book debts for and on behalf of its clients.
  - **Reason (R)**: OTCEI addresses some specific problems of both investors and mediumsize companies.
  - (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
  - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
  - (c) (A) is true, but (R) is false.
  - (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**4. Assertion (A) :** Primary market is a market few new issues or new financial claims.

Reason (R) : Hence, it is also called new Issue Market.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

#### VII. CHOOSE THE CORRECT STATEMENT.

- (i) The buying and selling is undertaken by participants such as individuals and institutions.
  - (ii) The participants of the capital market include individuals, corporate sectors and other financial institutions.
  - (iii) Capital market provides a transaction platform for term financial assets.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (i) and (ii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (c) (i) and (ii) are correct]

# 2. (i) Secondary market, borrowers exchange new financial securities for long-term funds.

- (ii) Secondary market covers both stock exchange and over the counter market.
- (iii) Capital market has a crucial significance to capital formation.
- (a) (i) is correct
- (b) (i) and (ii) are correct
- (c) (ii) and (iii) are correct
- (d) (i), (ii) and (iii) are correct

#### [Ans. (c) (ii) and (iii) are correct]

- 3. (i) Government has liberalised foreign Direct Investment (FDI) in the country.
  - (ii) Commercial banks also investors to withdraw their deposits, and when they are in need of funds.
  - (iii) The period between 1947 and 1973 marked the development of infrastructure for capital market.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (ii) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

#### [Ans. (d) (i), (ii) and (iii) are correct]

- 4. (i) The factoring institutions collect the book debts for and on behalf of its clients.
  - (ii) OTCEI addresses some specific problems of both investors and medium-size companies.
  - (iii) NSEI was established in 1992 to function as a model stock exchange.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (i) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

#### II. Very Short Answer Questions. 2 Marks

#### 1. What is securities Market?

Ans. The dealings in a capital markets are done through the securities like shares, debentures, etc. The capital market is thus called as securities market.

## Sura's XII Std - Commerce

- 2. Define capital market.
- Ans. According to Arun K. Datta, capital market may be defined as "a complex of institutions investment and practices with established links between the demand for and supply of different types of capital gains".
- 3. What is public issue?
- **Ans.** The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.
- 4. What is SEBI?
- Ans. SEBI means securities and Exchange Board of India. SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors.
- 5. What do you mean by derivatives market?
- Ans. (i) Derivatives market facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk.
  - (ii) The instruments derive their value mostly from the value of an underlying asset that can come in many forms stocks, bonds, commodities, currencies or mortgages.

#### III. SHORT ANSWER QUESTIONS. 3 MARKS

- 1. How new issues are floated in the primary market?
- **Ans.** There are three ways by which a company may raise capital in a primary market. They are:
  - (i) Public issue: The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.
  - (ii) Rights issue: When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue
  - (iii) **Private placement :** Private placement is a way of selling securities privately to a small group of investors.

- 2. Write a note on Gilt-Edged market.
- Ans. Gilt-Edged Market also known as Government Securities market is the market for Government and semi-Government securities. An important feature of the securities traded in this market. That they are stable in value and are much sought after by banks.
  - (i) Guaranteed return on investments
  - (ii) No speculation in securities
  - (iii) Institutional based investors which are compelled by law to invest a portion of their funds in these securities.
  - (iv) Predominated by such institutions as LIC, GIC, PFs and the commercial banks.

- 3. Explain commodity market.
- **Ans.** A commodity market is a place where buyers and seller can trade any homogenous good in bulk. Commodities are commonly classified in two subgroups.
  - (i) Hard commodities: Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron and ore.
  - (ii) Soft commodities: Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee and sugar.



for Full Book Order online and Available at all Leading Bookstores

CHAPTER

6

## **MONEY MARKET**

#### CHAPTER SNAPSHOT

- 6.1 Meaning and Definition
- 6.2 Characteristics
- 6.3 Difference between Capital Market and Money Market
- 6.4 Participants in Money Markets
- 6.5 Money Market Instruments
  - 6.5.1 Treasury Bills
  - 6.5.2 Certificate of Deposits
  - 6.5.3 Commercial Bills
  - 6.5.4 Government or Gilt Edged Securities Market

### EXERCISE

#### I. Choose the Correct Answers. 1 Mark

- 1. The money invested in the call money market provides high liquidity with
  - (a) Low Profitability
- (b) High Profitability
- (c) Limited Profitability
- (d) Medium Profitability

[Ans. (a) Low Profitability]

- 2. A major player in the money market is the
  - (a) Commercial Bank
  - (b) Reserve Bank of India
  - (c) State Bank of India
  - (d) Central Bank.

[Ans. (a) Commercial Bank]

- 3. Money Market provides
  - (a) Medium-term Funds
  - (b) Short-term Funds
  - (c) Long-term Funds (d) Shares

[Ans. (b) Short-term Funds]

- Money Market Institutions are \_\_\_
  - (a) Investment Houses (b) Mortgage Banks
  - (c) Reserve Bank of India
  - (d) Commercial Banks and Discount Houses

[Ans. (d) Commercial Banks and Discount Houses]

- Risk in the Money Market is \_
  - (a) High
- (b) Market Risk
- (c) Low Credit and Market Risk
- (d) Medium Risk

[Ans. (c) Low Credit and Market Risk]

- 6. Debt Instruments are issued by Corporate Houses are raising short-term financial resources from the money market are called
  - (a) Treasury Bills
  - (b) Commercial Paper
  - (c) Certificate of Deposit
  - (d) Government Securities

[Ans. (b) Commercial Paper]

- 7. The market for buying and selling of Commercial Bills of Exchange is known as a
  - (a) Commercial Paper Market
  - (b) Treasury Bill Market
  - (c) Commercial Bill Market
  - (d) Capital Market

[Ans. (c) Commercial Bill Market]

- 8. A marketable document of title to a time deposit for a specified period may be referred to as a .
  - (a) Treasury Bill
  - (b) Certificate of Deposit
  - (c) Commercial Bill
  - (d) Government Securities

[Ans. (b) Certificate of Deposit]

- 9. Treasury Bills commands
  - (a) High Liquidity
- (b) Low Liquidity
- (c) Medium Liquidity
- (d) Limited Liquidity

[Ans. (a) High Liquidity]

- 10. Government Securities are issued by agencies such as \_\_\_\_\_\_.
  - (a) Central Government
  - (b) State Governments
  - (c) Semi-government Authorities
  - (d) All of the above

[Ans. (d) All of the above]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

- 1. Define the term "Money Market".
- Ans. According to Crowther "the money market is the collective name given to the various firms and institutions that deal in the various grades of near money".

- What is commercial bill market?
- **Ans.** The market for buying and selling of commercial bills of exchange is known as commercial bill market.
- 3. What is a CD market?
- **Ans.** CD means certificate of deposits. The market for buying and selling of certificate of deposits is known as CD market.
- 4. What is Government Securities Market?
- Ans. A market whereby the government or gilt edged securities can be bought and sold is called 'Government securities market'.
- 5. What are the Instruments of Money Market?
- **Ans. (i)** Treasury Bills in the Treasury market.
  - (ii) Money at call and short notice in the call loan market.
  - (iii) Commercial bills and promissory notes in the bill market such as commercial papers, certificate of deposits, Inter-Bank participation certificates, Repo instruments, etc.
- 6. Explain the two oldest money markets.
- Ans. (i) London Money market is the oldest, most developed and Leading money market in the world.
  - (ii) New York money market is ranked as the second well developed Money Market in the world next only to the London Money Market.
- 7. What do you meant by Auctioning?
- **Ans.** A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as auctioning.
- 8. What do you meant by Switching?
- **Ans.** The purchase of one security against the sale of another security carried out by the RBI in the secondary market as part of its open market operations is described as switching.

#### III. Short Answer Questions. 3 Marks

- 1. What are the features of Treasury Bills?
- **Ans. (i)** Treasury bills are very popular and enjoy a higher degree of liquidity since they are issued by the government.
  - (ii) A Treasury bill is nothing but a promissory note issued for a specified period stated therein.
  - (iii) The period does not exceed a period of one year.

## (iv) The treasury bills incorporate the following general features:

- (a) Issuer
- (b) Finance Bills
- (c) Liquidity
- (d) Vital Source
- (e) Monetary Management

#### 2. Who are the participants of Money Market?

**Ans.** There are many participants in the money market. The participants are as follows:

- (i) Government of different countries
- (ii) Central banks of different countries
- (iii) Private and Public banks
- (iv) Mutual fund institutions
- (v) Insurance companies
- (vi) Non–Banking Financial Institutions
- (vii) RBI and SBI
- (viii) Commercial banks
- (ix) State governments
- (x) Public

#### 3. Explain the types of Treasury Bills.

Ans. Treasury bills are issued to the public and other financial institutions for meeting the short-term financial requirements of the central government. These bills are freely marketable and they can be bought and sold at any time and these bills are tradable in secondary market as well.

On the basis of periodicity, Treasury bills maybe classified into three. They are:

- (a) 91 days Treasury bills
- (b) 182 days Treasury bills and
- (c) 364 days Treasury bills
- (i) Ninety one days Treasury bills are issued at a fixed discount rate of 4 per cent as well as through auctions.
- (ii) The RBI holds 91 days and 182 Treasury bills and they are issued on tap basis throughout the week.
- (iii) 364 days Treasury Bills do not carry any fixed rate.
- (iv) The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut off rate.

#### 4. What are the features of Certificate of Deposit?

**Ans.** Features of certificate of deposits are :

- (i) Document of title to time deposit
- (ii) It is unsecured negotiable instruments.

## Sura's XII Std - Commerce

- (iii) It is freely transferable by endorsement and delivery.
- (iv) It is issued at discount to face value.
- (v) It is repayable on a fixed date without grace days.

#### 5. What are the types of Commercial Bill?

**Ans.** The various types of commercial bills are as follows:

- (i) Demand and usance bills
- (ii) Clean bill and documentary bills
- (iii) Inland bills and foreign bills
- (iv) Indigeneous bills
- (v) Accommodation and Supply bills.
  - (i) Demand and Usance bill: A demand bill is one wherein no specific time of payment is mentioned.
  - (ii) Clean bills and documentary bills:

    Bills that are accompanied by documents of title to goods are called documentary bills.
  - (iii) Inland bills and Foreign bills: Bills are drawn and payable in India are called inland bills. Bills that are drawn outside India are called foreign bills.
  - (iv) Indigeneous bills: The indigenous bills are governed by native custom or usage of trade.
  - (v) Accommodation and supply bills: Accommodation bills are those which do not arise out of genuine trade of transactions.

#### IV. Long Answer Questions. 5 Marks

# 1. Define Money Market and Capital Market. Explain the difference between the Money Market and Capital Market.

- Ans. (i) Definition of Money Market: According to Crowther" the money market is the collective name given to the various firms and institutions that deal in the various grades of near money".
  - (ii) Definition of Capital Market: According to Arun K. Datta capital market maybe defined as "a complex of institutions investment and practices with established links between the demand for and supply of different types of capital gains".
  - (iii) The difference between money market and capital market are as follows:

	S.No	Features	Money Market	Capital Market
١	1.	Duration of funds	It is a market for short-term loanable funds for a period of not exceeding one year.	It is a market for long-term funds exceeding period of one year.
•	2.	Deals with Instruments	It deals with instruments like commercial bills of exchange, treasury bill, commercial papers, etc.	It deals with instruments like shares and government bonds, etc.
	3.	Money value	Each single money market instrument is of large amount. Each certificate of deposits or commercial paper is for minimum of ₹ 25 lakhs.	of small amount. Each share value is
	4.	Role of major institutions	The central bank and commercial banks are the major institutions in the money market.	Development banks and Insurance companies play a dominant role in the capital market.
	5.	Availability of Instruments	Money market instruments generally do not have secondary market.	Capital market instruments generally have secondary markets.
	6.	Sub-division	In money market there is no such subdivision.	In capital market there is division of Primary market and secondary market.
	7.	Place of transaction	Transactions mostly take place over the phone and there is no formal place.	Transactions take place at a formal place. (e.g) Stock Exchange.
	8.	Risk	Low credit and market risk	High credit and market risk.

#### 2. Explain the characteristics of Money Market.

Ans. The following are the characteristics of money market.

- (i) Short-term Funds: It is a market purely for short-term funds or financial assets called near money.
- (ii) Maturity Period: It deals with financial assets having a maturity period upto one year only.
- (iii) Conversion of Cash: It deals with only those assets which can be converted into cash readily without loss and with minimum transaction cost.
- (iv) No Formal Place: Generally, transactions take place through phone i.e., oral communication. Relevant documents and written communications can be exchanged subsequently. There is no formal place like stock exchange as in the case of a capital market.
- (v) Sub-markets: It is not a single homogeneous market. It comprises of several sub-markets each specialising in a particular type of financing. Example, Call money market, Bill Market, Acceptance Market.

- (vi) Role of Market: The components of a money market are the Central bank, Commercial banks, Non-Banking Financial companies, Discount houses and Acceptance house. Commercial banks generally play a dominant role in this market.
- (vii) Highly Organized banking system: The commercial banks are the nerve centre of the whole money market. They are the principal suppliers of short-term funds. The commercial banks serve as vital link between the central bank and the various segments of the money market.

#### 3. Explain the Instruments of Money Market.

- Ans. There are many kinds of instruments available in money market. In India, till 1986, only a few instruments were available. They were as follows:
  - (i) Treasury bills in the Treasury market
  - (ii) Money at call and short notice in the call loan market
  - (iii) Commercial bills and promissory notes in the bill market.

Now in addition to the above, the following new instruments are available.

- (i) Commercial papers
- (ii) Certificate of deposits

#### (iii) Inter-Bank participation certificates

(iv) Repo instruments

Some of these are discussed below:

- (i) Treasury bills: Treasury bills are very popular and enjoy a higher degree of liquidity since they are issued by the Government. The Government promises to pay the specified amount mentioned therein to the bearer of the instrument on the due date.
- (ii) Certificate of Deposits: Certificate of deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money. Certificate of deposits are issued in the form of usance promissory notes. They are easily convertible and transferable.
- (iii) Commercial bills: A bill of exchange issued by a commercial organization to raise money for short- term needs. These bills are of 30 days, 60 days and 90 days maturity. The commercial bill is an instrument drawn by a seller of goods on a buyer of goods.
- (iv) Government or Gilt-Edged Securities:
  Government securities are issued for the purposes of refunding the maturing securities, for advance refunding securities, which have not yet matured and for cash financing, i.e., raising fresh cash resources.

## 4. Explain the features and types of Commercial Bills.

**Ans.** The features of commercial bills are:

- (i) Drawer
- (ii) Acceptor
- (iii) Payee
- (iv) Discounter
- (v) Endorser
- (vi) Assessment
- (vii) Maturity
- (viii) Credit rating

Types of commercial bills are:

#### (i) Demand and usance bills:

- (a) A demand bill is one wherein no specific time of payment is mentioned.
- (b) So, demand bills are payable immediately when they are presented to the drawee.

## Sura's XII Std - Commerce

#### (ii) Clean bills and documentary bills:

- (a) Bills that are accompanied by documents of title to goods are called documentary bills.
- (b) Clean bills are drawn without accompanying any document.
- (c) Example : Railway receipt and Lorry receipt.

#### (iii) Inland bills and Foreign bills:

- (a) Bills that are drawn and payable in India on a person who is resident in India are called inland bills.
- (b) Bills that are drawn outside India and are payable either in India or outside India are called foreign bills.

#### (iv) Indigeneous bills:

The drawing and acceptance of indigenous bills are governed by native custom or usage of trade.

#### (v) Accommodation and supply bills:

Accommodation bills are those which do not arise out of genuine trade of transactions.

## 5. What are the features of Government Securities?

**Ans.** The characteristics of government securities are discussed below:

- (i) Agencies: Government securities are issued by agencies such as central government, State governments, semi-government authorities like local government authorities, example, municipalities, autonomous institution such as metropolitan authorities, port trusts etc.
- (ii) RBI Special Role: RBI takes a special and an active role in the purchase and sale of these securities as part of its monetary management exercise.
- (iii) Nature of Securities: Securities offer a safe avenue of investment through guaranteed payment of interest and repayment of principal by the government.
- (iv) Liquidity Profile: The liquidity profile of gilt-edged securities varies. Accordingly liquidity profile of securities issued by Central Government is high.

- (v) Tax Rebate: A striking feature of these securities is that they offer wide-rang of tax incentives to investors. This has made these securities very popular for this benefit.
- (vi) Market: As each sale and purchase has to be negotiated separately, the Gilt-Edged

Market is an Over-the-Counter market. The government securities market in India has two segments namely primary market and secondary market.

(vii) Forms: The securities of Central and State government take such forms as inscribed stock or stock certificate, promissory note and bearer bond.

#### ADDITIONAL QUESTIONS AND ANSWERS

- I. Choose the Correct Answers. 1 Mark
- I. Choose the Correct option.
- 1. Treasury Bills and commercial bills are the examples of
  - (a) Money market
- (b) Capital market
- (c) Equity market
- (d) Debt market

[Ans. (a) Money market]

- 2. Which market deals with shares and debentures?
  - (a) Money market
- (b) Capital market
- (c) Debt market
- (d) Primary market

[Ans. (b) Capital market]

- 3. A market for the purchase and sale of Treasury bills are known as
  - (a) Treasury bills market (b) Call loan market
  - (c) Bill market
- (d) None of these

[Ans. (a) Treasury bills market]

- 4. Certificate of Deposits are issued in the form of usance
  - (a) Bill of exchange
- (b) Promissory notes
- (c) Commercial bills
- (d) None of these

[Ans. (b) Promissory notes]

- 5. The Issuers of certificate of Deposits are
  - (a) Drawer
- (b) Treasure bills
- (c) Commercial banks
- (d) Corporations

[Ans. (c) Commercial banks]

- 6. Bills that are accompanied by documents of title to goods are called
  - (a) Foreign bills
- (b) Indigeneous bills
- (c) Documentary bills
- (d) Demand bill

[Ans. (c) Documentary bills]

- 7. Liquidity status of certificate of deposit which is more negotiable is considered as
  - (a) certified liquidity
- (b) more liquid
- (c) term liquid
- (d) less liquid

[Ans. (b) more liquid]

- 8. Certificate of deposits which are usually negotiable are issued by
  - (a) banks
- (b) stock exchange
- (c) business corporations (d) financial market

[Ans. (a) banks]

- 9. Negotiable deposit certificate are traded in
  - (a) primary markets
  - (b) direct markets
  - (c) indirect markets
  - (d) secondary markets

[Ans. (d) secondary markets]

- 10. Type of market in which securities with less than one year maturity are traded is classified as
  - (a) Money market
- (b) Capital market
- (c) Global market
- (d) None of these

[Ans. (a) Money market]

- 11. Maximum maturity days of holding commercial paper are
  - (a) 170 days
- (b) 270 days
- (c) 120 days
- (d) 100 days

[Ans. (b) 270 days]

- 12. Certificate of deposits which are usually negotiable are issued by
  - (a) banks
  - (b) financial market
  - (c) stock exchange
  - (d) business corporations

[Ans. (a) banks]

#### 13. Process of issuing treasury bills are classified as

- (a) Treasury trading action
- (b) Treasury bills auction
- (c) Both
- (d) None of these

#### [Ans. (b) Treasury bills auction]

#### 14. Treasury bills have high liquidity because of

- (a) extensive secondary markets
- (b) extensive primary markets
- (c) premium money markets
- (d) discounted money markets

#### [Ans. (a) extensive secondary markets]

## 15. The short term financial instruments traded in money market is commonly called

- (a) Bonds
- (b) Shares
- (c) Notes
- (d) Commercial papers

#### [Ans. (d) commercial papers]

## 16. Commercial paper issued with low interest rate thus commercial paper are categorized as

- (a) payable rating
- (b) commercial rating
- (c) poor credit rating
- (d) better credit ratings

#### [Ans. (d) better credit rating]

## 17. Which of the following is not a characteristics of wholesale markets?

- (a) Firms deal with other firms
- (b) Lending and borrowing is coordinated through banks
- (c) Borrowing and lending is not intermediated
- (d) Very large quantities of money are at state

## [Ans. (b) Lending and borrowing is coordinated through banks]

# 18. Which of the following world stock exchanges were in the top five by value of transaction in 2009?

- (a) London Stock Exchange
- (b) Shanghai Stock Exchange
- (c) Amsterdam Stock Exchange
- (d) Hong Kong Exchange

[Ans. (b) Shanghai Stock Exchange]

# II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.		List I		List II
	i)	Auctioning	1)	Acquisition of securities
	ii)	Switching	2)	Sell government securities
	iii)	Trading	3)	Open market operations
	iv)	Grooming	4)	Highest bidder

#### Codes:

	(i)	(ii)	(iii)	(iv
(a)	1	2	3	4
(b)	4	3	_1	2
(c)	2	3	1	4
(d)	3	4	1	2

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

	List I		List II
i)	Issue Mechanism	1)	Second well developed
ii)	London Money Market	2)	Bearer bond
iii)	New York Money Market	3)	Oldest market in the world
iv)	Forms	4)	Public Debt office

#### Codes:

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	2	3	1	4
(c)	3	4	2	1
(d)	4	3	1	2

[Ans. (d) (i)-4; (ii)-3; (iii)-1; (iv)-2]

_				
3.		List I		List II
	i)	Tax Rebate	1)	Monetary management exercise
	ii)	Liquidity profile	2)	Central government
	iii)	RBI Special Role	3)	Gilt-edged securities
	iv)	Agencies	4)	Investors

#### Codes:

- (i) (ii) (iii) (iv) (a) 1 2 3 4
- (b) 3 4 2 1
- (c) 4 3 1 2
- (d) 2 3 1 4

[Ans. (c) (i)-4; (ii)-3; (iii)-1; (iv)-2]

#### III. CHOOSE AND FILL IN THE BLANKS.

- 1. \_\_\_\_\_ market is a market for purely short term funds.
  - (a) Capital
- (b) Money
- (c) Financial
- (d) Equity

[Ans. (a) management theory, philosophy]

- \_\_\_\_\_market is not a single homogeneous market.
  - (a) Primary
- (b) Secondary
- (c) Money
- (d) Capital

[Ans. (c) Money]

- 3. \_\_\_\_\_ are the nerve centre of the whole money market.
  - (a) Commercial banks
- (b) Reserve bank
- (c) State bank
- (d) Indian Overseas bank

[Ans. (a) Commercial banks]

- 4. \_\_\_\_ days Treasury Bills do not carry any fixed rate.
  - (a) 91 days
- (b) 182 days
- (c) 200 days
- (d) 364 days

[Ans. (d) 364 days]

- 5. \_\_\_\_\_ is an instrument drawn by a seller of goods on a buyer of goods.
  - (a) Treasury bill
  - (b) Certificate of deposit
  - (c) Commercial bill
- (d) None of these

[Ans. (c) Commercial bill]

- 6. A \_\_\_\_\_ is one wherein no specific time of payment is mentioned.
  - (a) Demand bill
  - (b) Documentary bill
  - (c) Foreign bill
- (d) Indigeneous bill

[Ans. (a) Demand bill]

- are drawn without accompanying any document.
  - (a) Demand bills
- (b) Clean bills
- (c) Documentary bills
- (d) Indigenous bills

[Ans. (b) Clean bills]

- 8. \_\_\_\_ bills are those which do not arise out of genuine trade of transactions.
  - (a) Inland
- (b) Foreign
- (c) Accommodation
- (d) Clean

[Ans. (c) Accommodation]

- 9. \_\_\_\_ plays a significant role in the Indian Money market.
  - (a) Treasury bills
  - (b) Certificate of deposits
  - (c) Government securities
  - (d) None of these

[Ans. (c) Government securities]

#### IV. PICK THE ODD ONE OUT.

- 1. (a) Drawer
- (b) Payee
- (c) Acceptor
- (d) Capital market

[Ans. (d) Capital market]

**Reason**: Capital market is a market for longterm funds exceeding period of one gear. Other three are features of commercial bills.

- **2.** (a) Clean bills
- (b) Indigenous bills
- (c) Grooming
- (d) Foreign bills

[Ans. (c) Grooming]

**Reason**: Grooming is the characteristics of government securities. Other three are types of commercial bills.

- V. Which one of the following is not correctly matched?
- 1. (a) Clean bills
- Railways receipt
- (b) Inland bills
- Drawn and payable in
  - India
- (c) Foreign bills Drawn outside India
- (d) Money market Longterm funds

[Ans. (d) Money market – Longterm funds]

# **Money Market**

## (a) Treasury bills – Monetary | VII. CH

Managements

- (b) Certificate of Deposits Foreign bills
- (c) Commercial bills Endorser
- (d) Government securities- Gilt-Edged securities

[Ans. (b) Certificate of Deposits – Foreign bills]

#### VI. CONSIDER THE FOLLOWING STATEMENT.

**1. Assertion** (A): Money market is a market for purely shot-term funds.

**Reason** (R): It deals with the financial assets and securities whose maturity period does not exceed one year.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**2. Assertion** (A): Treasury bills are very popular and enjoy a higher degree of liquidity.

**Reason** (**R**): The period does exceed a period of one year.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (c) (A) is true, but (R) is false]

**3. Assertion** (A): The certificate of Deposit is transferable from one party to another.

**Reason** (R): Due to their negotiable feature, they are also known as negotiable certificate of deposit.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

# VII. CHOOSE THE CORRECT STATEMENT.

- 1. (i) Money market deals with financial assets having a maturity period upto one year only.
  - (ii) Money market is a single homogeneous market.
  - (iii) Commercial banks generally play a dominant role in this market.
  - (a) (i) is correct
  - (b) (ii) is correct
  - (c) (i) and (ii) are correct
  - (d) (i) and (iii) are correct

[Ans. (d) (i) and (iii) are correct]

- 2. (i) The commercial banks serve as vital link between the central bank and the various segments of the money market.
  - (ii) Money market presupposes the existence of a large domestic and foreign trade.
  - (iii) Money market deals with instruments like shares, debentures, government bonds.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (i) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (b) (i) and (ii) are correct]

- 3. (i) Certificate of Deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money.
  - (ii) Certificate of deposits is a document of title to a time deposit.
  - (iii) Certificate of deposits issued at discount to face value.
  - (a) (i) is correct
  - (b) (i) and (iii) are correct
  - (c) (ii) is correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. What is cut-off rate?

Ans. 364 days Treasury bills do not carry any fixed rate of discount. The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut-off rate.

#### 2. Who are the issuers of certificate of deposits?

**Ans.** The issuers of certificate of deposits are Commercial banks, Financial Institutions, etc.

3. Who are the subscribers of certificate of deposits?

**Ans.** The certificate of deposits are available for subscription by individuals, corporations, trusts, associations and NRIs.

#### 4. What do you mean be money market?

- **Ans. (i)** Money market is the segment of financial markets where in financial instruments having maturities of less than one year are traded.
  - (ii) Examples: Treasury Bills, Commercial Bills, Certificate of Deposits, Government securities etc.

#### 5. What do you mean by certificate of deposits?

- Ans. (i) Certificate of deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money.
  - (ii) Certificate of Deposits are issued in the form of usance promissory notes.
  - (iii) The Certificate of Deposit is transferable from one party to another.

#### 6. What is Commercial bills?

Ans. (i) The commercial bills is an instrument drawn by a seller of goods on a buyer of goods.

(ii) It possesses the advantages like self-liquidating in nature, recourse to two parties, knowing exact date of transactions, transparency of transactions etc.

#### 7. What is near money?

**Ans.** Money market is a market purely for short-term funds or financial assets called near money.

#### III. Short Answer Questions. 3 Marks

#### 1. What are the objectives of money market?

**Ans.** A well-developed money market serves the following objectives:

- (i) Providing an equilibrium mechanism for ironing out short-term surplus and deficits.
- (ii) Providing a focal point for central bank intervention for influencing liquidity in the company.
- (iii) Providing access in uses to users of shortterm money to meet their requirements at a reasonable price.

## 2. Write a short note on clean bills and documentary bills.

- Ans. (i) Bills that are accompanied by documents of title to goods are called documentary bills.
  - (ii) Clean bills are drawn without accompanying any document.
  - (iii) Example : Railway Receipt and Lorry Receipt.

## 3. What do you mean by Inland bills and foreign bills?

- **Ans. (i)** Bills that are drawn and payable in India on a person who is resident in India are called inland bills.
  - (ii) Bills that are drawn outside India and are payable either in India or outside India are called foreign bills.



# UNIT III

## FINANCIAL MARKETS – II

**CHAPTER** 

7

# STOCK EXCHANGE

#### **CHAPTER SNAPSHOT**

- 7.1 Stock Exchange Origin, Meaning and Definition
- 7.2 Functions of Stock Exchange
- 7.3 Features of Stock Exchange
- 7.4 Benefits and Limitations of Stock Exchange
- 7.5 Stock Exchanges in India
- 7.6 Types of Speculators
- 7.7 Stock Exchange Vs Commodity Exchange
- 7.8 Recent Development in Stock Exchange

## EXERCISE

#### I. Choose the Correct Answers. 1 Mark

- 1. \_\_\_\_ is the oldest stock exchange in the world.
  - (a) London Stock Exchange
  - (b) Bombay Stock Exchange
  - (c) National Stock Exchange
  - (d) Amsterdam Stock Exchange

[Ans. (a) London Stock Exchange]

- 2. There are \_\_\_\_\_ stock exchange in the country.
  - (a) 21
- (b) 24
- (c) 20
- (d) 25

[Ans. (a) 21]

- 3. Stock exchanges deal in
  - (a) Goods
- (b) Services
- (c) Financial Securities
- (d) Country's Currency

[Ans. (c) Financial Securities]

- 4. Stock exchange allow trading in
  - (a) All types of Shares of any Company
  - (b) Bonds issued by the Govt
  - (c) Listed Securities
  - (d) Unlisted Securities

[Ans. (c) Listed Securities]

- 5. Jobbers transact in a stock exchange
  - (a) For their Clients
  - (b) For their Own Transactions
  - (c) For other Brokers
  - (d) For other Members

[Ans. (b) For their Own Transactions]

- 6. A pessimistic speculator is
  - (a) Stag
- (b) Bear
- (c) Bull
- (d) Lame Duck

[Ans. (b) Bear]

57

- 7. An optimistic speculator is
  - (a) Bull
- (b) Bear
- (c) Stag
- (d) Lame duck

[Ans. (a) Bull]

- 8. A bull operator believes in
  - (a) Increase in Prices
  - (b) Decrease in Prices
  - (c) Stability in Prices
  - (d) No change in Prices

[Ans. (a) Increase in Prices]

- 9. \_\_\_\_ means the price at which securities are bought and sold are recorded and made public.
  - (a) Market Quotations
  - (b) Trade Quotations
  - (c) Business Quotations
  - (d) Buyers Quotations

[Ans. (a) Market Quotations]

- 10. The rules and regulations of Stock exchange is framed by \_\_\_\_\_ guide lines.
  - (a) RBI
  - (b) Central Government
  - (c) SEBI
  - (d) BSE

[Ans. (c) SEBI]

#### II. Very Short Answer Questions. 2 Marks

- 1. What is meant Stock Exchange?
- Ans. Stock Exchange is an organised market for the purchase and sale of industrial and financial security. It is an organised market for buying and selling of corporate and other securities. It is also called as stock market or share market.
- 2. Define Stock Exchange.
- Ans. The Indian securities contracts (Regulation) Act of 1956 defines stock exchange as,"An association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."
- 3. Write any 5 Stock Exchanges in India.
- **Ans.** (i) The Bombay Stock Exchange.
  - (ii) The Ahmedabad Stock Exchange
  - (iii) Bangalore Stock Exchange Ltd.
  - (iv) The Calcutta Stock Exchange
  - (v) The Madras Stock Exchange

#### 4. What is meant by Remisier?

**Ans.** He acts as an agent of a member of a stock exchange. He obtains business for his principal i.e. the member. He gets a commission for that service. He is called Remiser.

#### 5. Who is called a Broker?

- **Ans. (i)** Brokers are commission agents, who act as intermediaries between buyers and sellers of securities.
  - (ii) They do not purchase or sell securities on their behalf.
  - (iii) They bring together the buyers and sellers and help them in making a deal.
  - (iv) Brokers charge a commission from both the parties for their service.
- 6. What are the types of Speculator?

**Ans.** Speculators are classified in to four types:

- (i) Bull
- (ii) Bear
- (iii) Stage and
- (iv) Lame duck
- 7. What is meant by Commodity Exchange?

**Ans.** Commodity exchange is an exchange where commodities are traded.

- 8. Mention the Recent Development in Stock Exchange.
- **Ans.** At present the National Stock Market in India comprises the following:
  - (i) National Stock Exchange of India Limited (NSE)
  - (ii) Stock Holding Corporation of India Limited (SHCIL)
  - (iii) National Clearing and Depository System (NCDS)
  - (iv) Securities Trading Corporation of India (STCI)
  - (v) National Securities Depositary Limited (NSDL)
- 9. What is the stock trading time in India?
- Ans. The normal stock trading time in India for equity market is between 9.15 am to 3.30 pm. On Monday to Friday in the stock exchanges in India. It is closed on week days i.e. Saturday and Sundays. It is also closed on National holidays.

#### 10. Explain Dalal Street.

- Ans. (i) Dalal street is an area in downtown Mumbai, India that houses the Bombay Stock Exchange the largest stock exchange in India and other reputable financial institutions.
  - (ii) It received the name Dalal street after the Bombay stock exchange moved to the area.
  - (iii) The literal transaction of Dalal in Marathi language is broker and intermediary.

#### III. Short Answer Questions. 3 Marks

#### 1. What are the limitations of Stock exchange?

**Ans.** The limitations of stock exchange are as follows:

- (i) Lack of uniformity and control of stock exchanges.
- (ii) Absence of restriction on the membership of stock exchanges.
- (iii) Failure to control unhealthy speculation
- (iv) Allowing more than one stock exchange in the place.
- (v) Non-insistence of margin requirement in stock exchange or in the case of produce exchanges.
- (vi) No proper regulation of listing of securities on the stock exchange.

#### 2. Explain Bull and Bear.

#### Ans. (i) Bull:

- (a) A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future.
- (b) In anticipation of price rise he makes purchases of shares at present and other securities with the intention to sell at higher prices in future.
- (c) He is called bull. He is an optimistic speculator.

#### (ii) Bear:

- (a) A Bear or Mandiwala speculator expects prices to fall in future and sells securities at present with a view to purchase them at lower prices in future.
- (b) A bear does not have securities at present, but sells them at higher prices in anticipation that he will supply them by purchasing at lower price in future
- (c) He is called bear. He is a pessimistic speculator.

#### 3. Explain Stag and Lame Duck.

#### Ans. (i) Stag:

- (a) A stage is cautious speculator in the stock exchange.
- (b) He applies for shares in new companies and expects to sell them at a premium, if he gets and allotment.
- (c) He selects those companies whose shares are in more demand and are likely to carry a premium.
- (d) He sells the shares before being called to pay the allotment money. He is called a premium hunter.

#### (ii) Lame duck:

- (a) When a bear finds it difficult to fulfill his commitment, he is said to be struggling like a lame duck.
- (b) A bear speculator contracts to sell securities at a later date.
- (c) Moreover, the buyer is not willing to carry over the transactions.

## 4. Explain National Stock Market System. (NSMS).

- Ans. National stock market system was advocated by the Higher powered group on the establishment of New stock Exchanges headed by Shri. M.J. Pherwani (popularly known as pherwani committee). At present the National stock Market in India comprises the following:
  - (i) National Stock Exchanges of India Limited (NSE)
  - (ii) Stock Holding Corporation of India Limited (SHCIL)
  - (iii) National clearing and Depository System (NCDS)
  - (iv) Securities Trading Corporation of India. (STCI)

#### **5.** Explain National Stock Exchange. (NSE).

- Ans. (i) NSE was incorporated in November, 1992. It is a countrywide, screen based, Online and order driven trading system. It uses satellite link to spread trading throughout the country thereby connecting members scattered all over the India.
  - (ii) Through computer network, member's orders for buying and selling within prescribed prices are matched by central computer with each other and instantly communicate to the trading member.

(iii) NSE has two segments, i.e. Debt segment and capital segment. It has ushered in transparent, screen based and user friendly trading of global standards.

#### IV. Long Answer Questions. 5 Marks

- Explain the functions of Stock Exchange. (Any 5)
- **Ans.** The various functions of stock exchange are as follows:
  - (i) Ready and continuous market:
    - (a) Stock exchange is a market for existing securities.
    - (b) If an investor wants to sell his securities, he can easily and quickly dispose them off on a stock exchange.
  - (ii) Correct evaluation of securities:
    - (a) The prices at which securities are bought and sold are recorded and made public.
    - **(b)** These prices are called "market quotations".
  - (iii) Protection to investors:
    - (a) All dealings in a stock exchange are in accordance with well-defined rules and regulations.
    - (b) For example, brokers cannot charge higher rate of commission for their services. Any malpractice will be severely punished.
  - (iv) Proper channalisation of capital:
    - (a) People like to invest in the shares of such companies which yield good profits.
    - (b) The savings of individuals are directed towards promising companies which declare good dividends over a period of time.
  - (v) Aid to capital formation:
    - (a) The publicity which the stock exchange gives to various industrial securities and their prices.
    - (b) Stock exchanges thus ensures a steady flow of capital into industry and assists industrial development.

- 2. Explain the features of Stock Exchange. (Any 5)
- **Ans.** The various features of stock exchanges are as follows:
  - (i) Market for securities:

Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.

- (ii) Deals in second hand securities:
  - (a) It deals with shares, debentures, bonds and such securities already issued by the companies.
  - (b) In short, it deals with existing or second hand securities and hence it is called secondary market.
- (iii) Regulates Trade in securities:
  - (a) Stock exchange does not buy or sell any securities on its own account.
  - (b) It merely provides the necessary infrastructure and facilities for trade in securities.
- (iv) Allows dealings only in listed securities :
  - (a) In fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor.
  - (b) Securities which do not figure in the official list of stock exchange are called unlisted securities.
- (v) Transactions effected only through members:
  - (a) All the transactions in securities at the stock exchange are affected only through its authorised brokers and members.
  - (a) Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange.
- 3. Explain the Benefits of Stock Exchange.
- **Ans.** The stock exchanges rendered various services to the community, company and investors. They are as follows:
  - (i) Benefits to the community:
    - (a) Economic development: It accelerates the economic development by ensuring steady flow of savings into productive purposes.

- (b) Fund raising platform: It enables the well managed, profit making companies to raise limitless funds by fresh issued of shares from time to time.
- (c) Tools to divert resources: Scarce resources are thus diverted to efficiently run enterprises for better utilisation.
- (ii) Benefit to the company:
  - (a) Enhances goodwill or reputation: Companies who shares are quoted on a stock exchange enjoy greater goodwill and credit standing.
  - **(b) Wide market :** There is a wide and ready market for such securities.

- (c) Raises huge funds: Stock exchange can raise huge funds easily by issue of shares and debentures.
- (iii) Benefit to investors:
  - (a) Liquidity: Stock exchange helps an investors to convert his shares into cash quickly and thus increases the liquidity of his investments.
  - (b) Investors protection: The stock exchange safeguards, investor's interest and ensures fair dealing by strictly enforcing its rules and regulations.
  - (c) Assessing real worth of security:
    An investor can easily assess the real
    worth of securities in his hands, as
    market quotations are published daily
    in the newspapers and in websites.

#### 4. Distinguish between Stock Exchange and Commodity Exchange.

#### Ans.

S.No.	Feature	Stock Exchange	Commodity Exchange
1.	Meaning	Stock exchange is an organised market for the purchase and sale of industrial and financial security	A commodity exchange is an exchange where commodity are traded
2.	Object	Object is facilitating capital formation and making best use of capital resources	Object is facilitating goods flow through risk reduction
3.	Participants	Investors and speculators	Producers, dealers, traders and a body of speculators
4.	Articles traded	Industrial securities such as stocks and bonds and government securities	Only durable, graded and goods having large volume of trade
5.	Speculation	Speculation ensures saleability of securities	Speculation ensures assumption and absorption of price risk
6.	Price Quotation	As regards forward dealings, only one quotation is possible	For future dealings, multiple quotations are possible

#### 5. Explain Lombard street and Wall street.

#### Ans. (i) Lombard street:

- (a) Lombard street is in London. It is a street with the city of London's merchant, banking and insurance industries, stretching back to medieval times.
- (b) From Bank Junction, where nine streets converge by the Bank of England, Lombard street runs southeast for a short distance before bearing left into a more easterly direction and terminates at a junction with Grace Church street and Fenchurch street.
- (c) Its overall length is 260 meters. It has often been compared with wall street in New York City.

#### (ii) Wall street:

- (a) Wall street is a street in lower Manhattan that is the original home of the New York Stock Exchange and historic head quarters of the largest U.S. brokerages and investment banks.
- (b) The term wall street is also used as a collective name for the financial and investment community, which includes stock exchanges and large banks, brokerages, securities and underwriting firms and big businesses.
- (c) Today, brokerages are geographically diverse, allowing investors free access to the same information available to wall street's tycoons.

#### Additional Questions and Answers

#### I. Choose the Correct Answers. 1 Mark

#### I. CHOOSE THE CORRECT OPTION.

- 1. Amsterdam stock exchange was established in the year
  - (a) 1602
- (b) 1604
- (c) 1666
- (d) 1680

[Ans. (a) 1602]

- 2. Which of the following securities are bought and sold are recorded and made public?
  - (a) Protection to investors
  - (b) Capital formation
  - (c) Market quotations
  - (d) None of these [Ans. (c) Market quotations]
- 3. People like to invest in the shares of such companies which yield
  - (a) goodwill
- (b) good profits
- (c) financial position is high
- (d) services

[Ans. (b) good profits]

- 4. Stock exchange requires recognition from the
  - (a) State government
  - (b) Central government
  - (c) Commercial bank
  - (d) Financial institutions

[Ans. (b) Central government]

- 5. Stock exchange encourages
  - (a) Raising fund
  - (b) Capital formation
  - (c) Divert resources
  - (d) Bargaining strength

[Ans. (b) Capital formation]

- 6. Jobbers are also called as
  - (a) Taravaniwalas
- (b) Gambling
- (c) Speculation
- (d) Bear

[Ans. (a) Taravaniwalas]

- 7. The prices of different securities traded are shown on
  - (a) state boards
- (b) central boards
- (c) electronic boards
- (d) none of these

[Ans. (c) electronic boards]

- 8. Who act as intermediaries between buyers and sellers of securities?
  - (a) Authorized clerks
- (b) Brokers
- (c) Jobbers
- (d) Speculation

[Ans. (b) Brokers]

- 9. Tejiwala is an
  - (a) Pessimistic speculator
  - (b) Optimistic speculator
  - (c) Premium hunter
  - (d) Taravaniwalas

[Ans. (b) Optimistic speculator]

- 10. A bear is a
  - (a) Premium hunter
  - (b) Optimistic speculator
  - (c) Pessimistic speculator
  - (d) Tejiwala

[Ans. (c) Pessimistic speculator]

- 11. National stock exchange was incorporated in
  - (a) November, 1992
- (b) October, 1992
- (c) November, 1996
- (d) October, 1996

[Ans. (a) November, 1992]

- 12. The normal trading time for equity market is between
  - (a) 8:30 a.m to 7:30 p.m
  - (b) 9:15 a.m to 3:30 p.m
  - (c) 6:00 a.m to 6:00 p.m
  - (d) 7:30 a.m to 7:00 p.m

[Ans. (b) 9:15 a.m to 3:30 p.m]

- 13. The right to sell a security is called
  - (a) Put option
- (b) Call option
- (c) Reference option
- (d) None of these
- [Ans. (a) Put option]
- 14. The right to buy is called
  - (a) Call option
- (b) Put option
- (c) Both
- (d) None of these

[Ans. (a) Call option]

- 15. Stock exchange allows trading in
  - (a) All types of shares of any company
  - (b) Bonds issued by the Government
  - (c) Listed Securities
  - (d) Unlisted Securities

[Ans. (c) Listed Securities]

#### 16. Jobbers transact in a stock exchange

- (a) For their clients
- (b) For their own transactions
- (c) For other brokers
- (d) For other members

#### [Ans. (b) For their own transactions]

#### 17. A stock exchange is a place to

- (a) Exchange one security for another
- (b) Buy and sell financial securities
- (c) Float new issues
- (d) Buy and sell stock of goods

[Ans. (b) Buy and sell financial securities]

# II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.		List I		List II
	i)	NSE	1)	National Stock Exchange of India
	ii)	OTCEI	2)	Over The Counter Exchange of India
	iii)	ISE	3)	Inter connected Stock Exchange of India Ltd
	iv)	SBTS	4)	Screen Based Trading System

#### Codes:

(i)	(ii)	(iii)	(iv)
, ,		, ,	

- (a) 1 2 3 4
- (b) 4 3 2 1
- (c) 2 4 1 3
- (d) 1 3 2 4

[Ans. (a) (i)-1; (ii)-2; (iii)-3; (iv)-4]

2.		List I		List II
	i)	Economic development	1)	Reputation
	ii)	Scare resources	2)	Merge or amalgamation
	iii)	Goodwill	3)	Better utilization
	iv)	Bargaining strength	4)	Productive purposes

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 2 3 4 1
- (c) 4 3 1 2
- (d) 3 4 2 1

[Ans. (c) (i)-4; (ii)-3; (iii)-1; (iv)-2]

## Sura's XII Std - Commerce

3.		List I		List II
	i)	Authorized clerks	1)	Taravaniwalas
	ii)	Brokers	2)	Highly frequent and volatile
	iii)	Jobbers	3)	Commission
	iv)	Speculation	4)	Salary

#### Codes:

- (i) (ii) (iii) (iv)
- (a) 1 2 3 4
- (b) 4 3 2 1
- (c) 2 3 4 1
- (d) 3 4 1 2

[Ans. (b) (i)-4; (ii)-3; (iii)-2; (iv)-1]

#### III. CHOOSE AND FILL IN THE BLANKS.

- 1. \_\_\_\_\_ is one of the important constituents of capital market.
  - (a) Stock exchange
- (b) Primary market
- (c) Share capital
- (d) Equity capital

[Ans. (a) Stock exchange]

- 2. \_\_\_\_\_ is an organized market for the purchase and sale of industrial and financial security.
  - (a) Securities
- (b) SEBI
- (c) Stock exchange
- (d) None of these

[Ans. (c) Stock exchange]

- 3. \_\_\_\_\_ is the most popular stock exchange in the world.
  - (a) London stock exchange
  - (b) Bombay stock exchange
  - (c) Amsterdam stock exchange
  - (d) Tokyo stock exchange

[Ans. (a) London stock exchange]

- 4. \_\_\_\_\_ is considered as the oldest stock exchange in the world.
  - (a) Bombay stock exchange
  - (b) Amsterdam stock exchange
  - (c) London stock exchange
  - (d) Tokyo stock exchange

[Ans. (b) Amsterdam stock exchange]

<b>5.</b>	is an integral part of stock exchange				
	operations.				
	(a) Capital formation				
	(b) Evaluation of securities				
	(c) Speculation				
	(d) Business information	n			
	(*)	[Ans. (c) Speculation]			
6.	Stock exchange does				
	securities on its				
	(a) own	(b) current			
	(c) fixed	(d) recurring deposit			
	(c) inica	[Ans. (a) own]			
7.	Stock exchange regu				
•	activities.				
	(a) Commercial	(b) Non-commercial			
	(c) trade	(d) non-trade			
	(c) trade	[Ans. (c) trade]			
8.		llowed to enter in the			
	trading circles of the sto	_			
	(a) Insiders	(b) Outsiders			
	(c) Workers	(d) Managers			
		[Ans. (b) Outsiders]			
9.	Stock exchange is an	market.			
•	(a) primary	(b) secondard			
	(c) commercial	(d) organised			
	(c) commercial	[Ans. (d) organised]			
10.		es are thus diverted			
	to efficiently run en	nterprises for better			
	utilisation.	(1) 27 1			
	(a) Scarce	(b) Natural			
	(c) Thermal	(d) Non-natural			
		[Ans. (a) Scarce]			
11.	The ISE has been pr	omoted by			
	regional stock exchange				
	based at Mumbai.	•			
	(a) 12 (b) 13	(c) 15 (d) 21			
		[Ans. (c) 15]			
12.	Brokers charge a				
	parties for their service				
	(a) wage	(b) Salary			
	(c) commission	(d) profit			
	(1)	[Ans. (c) commission]			
10	1 1				
13.		on behalf of public and			
	are barred from taking				
	(a) Authorized clerks	(b) Brokers			
	(c) Jobbers	(d) Gambling			

14.	does not	perform economic
	function.	•
	(a) Speculation	(b) Jobbers
	(c) Brokers	(d) Gambling
		[Ans. (d) Gambling]
15.	is an opera	tor who expects a rise
	in prices of securities in	_
	(a) Bull	(b) Bear
	(c) Stage	(d) Lame Duck
		[Ans. (a) Bull]
16.	usually pre	esses its victim down
10.	to ground.	Joseph Ho William Go Will
	(a) Bull	(b) Bear
	(c) Lame Duck	(d) Stag
		[Ans. (b) Bear]
17.	A is a caution	ous speculator in the
1,.	stock exchange.	ous operation in the
	(a) Lame Duck	(b) Bull
	(c) Bear	(d) Stag
		[Ans. (d) Stag]
18.	is a count	ry wide, scree based,
	online and order driven	
	(a) NSE	(b) SHCIL
	(c) NCDs	(d) STCI
		[Ans. (a) NSE]
19.	has revolution	nised stock trading in
17.	India.	
	(a) STCI	(b) NSE
	(c) NCDs	(d) SHCIL
		[Ans. (b) NSE]
20.	is an index	of the stock in BSE.
	(a) Sensex	(b) Nifty
	(c) Options market	(d) Primary market
		[Ans. (a) Sensex]
21.	Options are a type of	product.
	(a) consumer	(b) derivative
	(c) both	(d) none
		[Ans. (b) derivative]
22.	are the emplo	oyees of the members
	of a stock exchange.	
	(a) Jobbers	(b) Brokers
	(c) Authorised clerk	(d) Speculators
	[Ans.	(c) Authorised clerk]

[Ans. (c) Jobbers]

#### IV. PICK THE ODD ONE OUT.

- 1. (a) London Stock Exchange
  - (b) Tokyo Stock Exchange
  - (c) Remisers
  - (d) Hong Kong Stock Exchange

[Ans. (c) Remisers]

**Reason:** Remisers acts as an agent of a member of a stock exchange. Other three are top 10 stock exchanges in the world.

- **2.** (a) Bull
- (b) Bear
- (c) Authorized clerks (d) Stag

[Ans. (c) Authorized clerks]

**Reason :** The authorised clerks are more employees of the members, appointed by the member of stock exchange. Other three are types of speculators.

- 3. (a) NASDAQ
  - (b) TMX Group
  - (c) Lame Duck
  - (d) Bombay Stock Exchange

[Ans. (c) Lame Duck]

**Reason :** When a bear finds it difficult to fulfil his commitment, he is said to be struggling like a lame duck. Other three are top 10 stock exchanges in the world.

## V. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

- 1. (a) Bull Tejiwala
  - (b) Bear Mandiwala
  - (c) Stag Premium hunter
  - (d) Lame Duck Cautious Speculators

[Ans. (d) Lame Duck - Cautious Speculators]

- 2. (a) Lombard Street City of London's merchant
  - (b) Wall Street Small business
  - (c) Dalal Street Bombay stock exchange
  - (d) Options market Derivative product

[Ans. (b) Wall Street - Small business]

## Sura's XII Std - Commerce

## VI. WHICH ONE OF THE FOLLOWING IS CORRECTLY MATCHED?

- 1. (a) NSE National Security Exchange
  - (b) SHCIL Stock Holding Corporation of India Ltd
  - (c) STCI Short term Trading corporation of India
  - (d) NSDL National Stock Depository Limited

[Ans. (b) SHCIL – Stock Holding Corporation of India Ltd]

- 2. (a) London Stock Exchange – \$ 4.485 trillion
  - (b) Hong Kong Stock Exchange - \$ 3.321 trillion
  - (c) Bombay Stock Exchange \$ 3.986 trillion
  - (d) Tokyo Stock Exchange \$ 4.485 trillion

[Ans. (d) Tokyo Stock Exchange – \$ 4.485 trillion]

#### VII. CONSIDER THE FOLLOWING STATEMENT.

**1. Assertion** (A): Stock exchanges and organised market provide a place for the investors to buy and sell securities freely.

**Reason** (R): Stock exchange is one of the important constituents of capital market.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

**2. Assertion** (A): A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future.

**Reason** (**R**): He is called bull because just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**Assertion (A):** A stag is a cautious speculator in the stock exchange.

**Reason** (R): He sells the shares before being called to pay the allotment money.

- (a) Both A and R are true and R is the correct explanation of A
- (b) Both A and R are true but R is not a correct explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both A and R are true and R is the correct explanation of A]

#### VII. CHOOSE THE CORRECT STATEMENT.

- 1. Brokers are commission agents, who acts as
  - (i) agent of the member of a stock exchange
  - (ii) employees of the member of a stock exchange
  - (iii) intermediaries between buyers and sellers of secruities
  - (iv) Security markets dealing in securities
  - (a) (i) is correct
- (b) (ii) is correct
- (c) (iii) is correct
- (d) (iv) is correct

[Ans. (c) (iii) is correct]

- 2. (i) Stock Exchange is one of the important constituents of capital market.
  - (ii) Speculation is an integral part of stock exchange operations.
  - (iii) Industrial growth and stability is reflected in the index of stock exchange.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (ii) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

- 3. (i) Remisers acts as an agent of member of a stock exchange.
  - (ii) Brokers charge a fees from both the parties for their service.
  - (iii) Jobbers are called Taravaniwalas.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (i) and (iii) is correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (c) (i) and (iii) are correct]

#### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. What is Sensex?

- Ans. (i) Sensex is an index of the stocks in BSE (Bombay Stock Exchange) Sensex has a list of 30 stocks.
  - (ii) BSE decides the stocks that are to be listed on Sensex.
  - (iii) Based on the above said factors, BSE regularly prepares a set of 30 stocks which will be together called as SENSEX.

#### III. Short Answer Questions. 3 Marks

- 1. Briefly explain the stock exchanges in India.
- **Ans. (i)** There are 24 stock exchange in the country, with 21 of them being regional in nature.
  - (ii) Three others that have been set up in the reforms era, viz., National Stock Exchange, the over the counter Exchange of India Limited and Interconnected Stock Exchange of India Limited have mandate to nation wide trading network.
  - (iii) The ISE has been promoted by 15 regional stock exchanges in the country and is based at Mumbai.
  - (iv) The NSE, OTCEI, ISE and majority of the regional stock exchanges have adopted the screen Based Trading System to provide automated and modern facilities for trading in a transparent, fair and open manner with access to investors across the country.

### 2. Write a short note on (i) Jobbers, (ii) Gambling

### Ans. (i) Jobbers:

- (a) Jobbers are security merchants dealing in shares, debentures as independent operators.
- (b) They buy and sell securities on their own behalf and try to earn through price changes.
- (c) In India, they are called Taravaniwalas.

### (ii) Gambling:

- (a) There is no reasoning involved in gambling.
- (b) It accentuates fluctuations in price and it is unethical and illegal.
- (c) It does not perform economic function.

### 3. What is NIFTY? and Explain it.

- Ans. (i) The word Nifty originates from 2 words, 'National' and 'Fifty'.
  - (ii) Nifty basically means the index of the 50 most actively traded stocks from across all sectors.
  - (iii) Nifty represents the top stocks of the NSE and when we talk about Nifty going up, it means that all the heavyweight stocks of NSE across all sectors are moving up.
  - (iv) Nifty consists of top 50 companies from 24 different sectors.
  - (v) Nifty is computed from the performance of top stocks from different sectors.
  - (vi) Some mutual funds use Nifty as a benchmark. The performance of the mutual funds is assessed against the performance of the Nifty.
- 4. Write short notes on i) Future market, ii) Options market.

#### Ans. (i) Future Market:

- (a) A Future market is an auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date.
- (b) Examples of futures markets are the New York Mercantile Exchange, the Kansas City Board of Trade, the Chicago Mercantile Exchange, the Chicago Board of Options Exchange and the Minneapolis Grain Exchange.

### Sura's XII Std - Commerce

### (ii) Options Market:

- (a) An 'Option' is a type of security that can be bought or sold at a specified price within a specified period of time, in exchange for a non-refundable upfront deposit.
- (b) Options are a type of derivative product. The right to sell a security is called a 'Put Option', while the right to buy is called the 'Call Option'.

### IV. Long Answer Questions. 5 Marks

- 1. Briefly explain the important stock exchanges in the world. (any six)
- **Ans.** As on January 31st, 2017, the ten biggest stock exchanges in the world by market capitalisation of listed securities are:
  - (i) The New York Stock Exchange Located in New York City; \$19.223 trillion in listed market capitalization.
  - (ii) NASDAQ Short for the "National Association of Securities Dealers Automated Quotation", this electronic stock exchange is located in New York City; \$6.831 trillion in listed market capitalization.
  - (iii) London Stock Exchange Located in London, England; \$6.187 trillion in listed market capitalization.
  - (iv) Tokyo Stock Exchange Formally known as the Japan Exchange Group, located in Tokyo, Japan; \$4.485 trillion in listed market capitalization.
  - (v) Hong Kong Stock Exchange Located in Hong Kong, Hong Kong; \$3.325 trillion in listed market capitalization.
  - (vi) Bombay Stock Exchange Located in Mumbai, India; \$1.682 trillion in market capitalization.
- 2. Briefly explain the types of speculators.
- **Ans.** Speculators in a stock market are of different types. They carry their names depending on their motive of trading in the stock exchange. Types of speculators are as follows:

### Sura's XII Std - Commerce

#### (i) Bull:

- (a) A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future.
- (b) He is called bull because just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise.
- (c) He is an optimistic speculator.

### (ii) Bear:

- (a) A bear or Mandiwala speculator expects prices to fall in future and sells securities at present with a view to purchase them at lower prices in future.
- **(b)** A bear usually presses its victim down to ground.
- (c) A bear is a pessimistic speculator.

### (iii) Stag:

- (a) A stag is a cautious speculator in the stock exchange.
- (b) He selects those companies whose shares are in more demand and are likely to carry a premium.
- (c) He sells the shares before being called to pay the allotment money. He is also called a premium hunter.

### (iv) Lame Duck:

- (a) When a bear finds it difficult to fulfill his commitment, he is said to be struggling like a lame duck.
- **(b)** A bear speculator contracts to sell securities at a later date.
- (c) On the appointed time he is not able to get the securities as the holders are not willing to part with them.

### **3.** Briefly explain the terms

i. SHCIL

ii. NCDS

iii. STCI

iv. NSDL

### Ans. (i) Stock Hodling Corporation of India Limited (SHCIL):

- (a) The Stock Holding Corporation of India Ltd (SHCIL) is committed to speed up trading, clearance and settlement services for securities and monetary instruments.
- (b) SHCIL is the first depository participant registered with SEBI and acts as an agent of the National Securities Depository.

## (ii) National Clearance and Depository System (NCDS):

- (a) This system was created chiefly to help overcome the problem of settlement and clearance of transactions consequent to enormous workload on the clearing agencies and share transfer agencies.
- (b) The problems mainly arose out of systematic risk like counter party risk, credit risk, bad deliveries, long delayed delivery, counterfeit scrips, and forged scrips.

## (iii) Securities Trading Corporation of India (STCI):

- (a) The main objective of establishing the Corporation was to foster the development of an active secondary market for Government securities and bonds issued by public sector undertakings.
- (b) It had an authorized and paid-up capital of Rs. 500 crores of which, RBI contributed 50.18 percent.

## (iv) National Securities Depository Limited (NSDL):

- (a) National Securities Depository Ltd (NSDL) was inaugurated as the first depository in India on November 8, 1996.
- (b) Trading in dematerialized securities on the National Stock Exchange (NSE) commenced in December 26, 1996.



**CHAPTER** 

8

# SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

### CHAPTER SNAPSHOT

- 8.1 Introduction of SEBI
- 8.2 Objectives of SEBI
- 8.3 Functions of SEBI
- 8.4 Powers of SEBI
- 8.5 Dematerialization (DEMAT)
- 8.6 Benefits of Dematerialization

### EXERCISE

I. 1.		T Answers. 1 Mark Board of India was first	5.	nominate	mpowered by e men very stock exc	nbers on th	
	established in the yea	r(b) 1992		•	(b) 3	•	(d) 7
	(a) 1988						[Ans. (b) 3]
	(c) 1995	(d) 1998 [Ans. (a) 1988]	6.	_	ess of convert c form is calle		al shares into
2.	The headquarters of S	SEBI is			aterialisation		sting
	(a) Calcutta	(b) Bombay			rialisation		0
	(c) Chennai	(d) Delhi		(-)			terialisation]
		[Ans. (b) Bombay]	7.	Trading i	is demateriali		
3.		was constituted as the		on the NS	SE is	_	
	regulator of capital m			(a) Janua	ry 1996	(b) June	1998
	(a) 1988	(b) 1992		(c) Decei	mber 1996	(d) Dec	ember 1998
	(c) 2014	(d) 2013			[A	ns. (c) Dec	ember 1996]
		[Ans. (a) 1988]	8.		was the firs	t company	to trade its
4.		olling the functioning of		shares in	Demat form.		
		schemes as		(a) Tata I	ndustries		
	(a) Mutual Funds			(b) Reliai	nce Industries		
	(c) Rematerialisation	(d)Dematerialization		(c) Infos	ys		
		[Ans. (a) Mutual Funds]		(d) Birla	Industries		
					Ans.	(b) Relianc	e Industries

## Sura's XII Std - Commerce

- enables small investors participate in the investment on share capital of large companies.
  - (a) Mutual Funds
- (b) Shares
- (c) Debentures
- (d) Fixed deposits

[Ans. (a) Mutual Funds]

- 10. PAN stands for
  - (a) Permanent Amount Number
  - (b) Primary Account Number
  - (c) Permanent Account Number
  - (d) Permanent Account Nominee

[Ans. (c) Permanent Account Number]

### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

#### 1. Write a short notes on SEBI.

**Ans.** SEBI means Securities Exchange Board of India. It is an apex body that maintains and regulates our capital market. It was established in 1988 by Indian government but got a statutory powers in 1992.

#### Write any two objectives of SEBI. 2.

- The first objective of SEBI is regulate Ans. (i) stock exchanges.
  - The second foremost objective of SEBI is (ii) to protect the interests of the investors.

#### 3. What is Demat account?

Ans. Investors will first have to open an account with DP (Depository Participant) and then request for dematerialization of certificates through DP. Purchases made by an investor are credited to his account and sales are debited. This account is called Demat account.

### Mention the headquarters of SEBI.

**Ans.** SEBI has its headquarters at the business district of Bandrakurla complex in Mumbai and has Northern, Eastern, Southern and Western Regional offices in New Delhi, Kolkatta, Chennai and Ahmedabad respectively.

### What are the various ID proofs?

Ans. PAN card, Voters ID, Passport, Drivers license, Bank attestation, IT returns, electricity bill, telephone bill, ID cards with applicants photo issued by the central or state government and its departments are the various ID proofs.

#### III. SHORT ANSWER QUESTIONS. 3 MARKS

### What is meant by Dematerialization?

- Ans. (i) Dematerialization is the process by which physical share certificates of an investor are taken back by the company/registrar and destroyed.
  - (ii) Dematerialization is done at the request of the investor. Investors will first have to open an account with a DP (Depository Participant) and then request for dematerialization of certificates through the DP.
  - (iii) Purchases made by an investor are credited to his account and sales are debited. All the holdings of a particular security will be identical and interchangeable.
  - (iv) Trading in dematerialized shares commenced on the NSE in December, 1996, where Reliance Industries was the first company to trade its 100 shares in demat form.

### What are the documents required for a Demat account?

- Ans. (i) We need to submit proof of identity and address along with a passport size photograph and the account opening form. Only photocopies of the documents are required for submission, and originals are also required for verification.
  - (ii) The Proof of identity may be, PAN card, voter's ID, passport, driver's license, bank attestation, IT returns, electricity bill, telephone bill, ID cards with applicant's photo issued by the central or state government and its departments, etc.
  - (iii) The Proof of address may be Ration card, passport, Voter's ID card, bank passbook or bank statement, verified copies of electricity bills, residence telephone bills, lease and license agreement or agreement for sale, etc.

#### What is the power of SEBI under Securities 3. **Contract Act?**

- Ans. Securities contract (Regulation) Act empowers Central Governments to delegate some of its powers, to SEBI. They are as follows:
  - Power to grant recognition to a stock exchange.

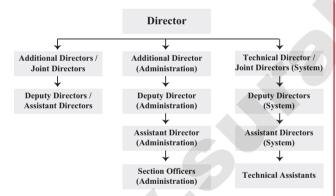
# (ii) Power to direct any stock exchange to amend the ruels relating to constitution of stock exchange, admission of new members, etc.

- (iii) Power to supersede governing body of any stock exchange.
- (iv) Power to suspend business of a recognised stock exchange.
- (v) Power to prohibit contracts in certain cases.

### 4. What is meant by Insiders trading?

- Ans. (i) Insider trading means the buying ans selling of securities by directors, promoters, etc. who have access to some confidential information about the company and who wish to take advantage of this confidential information.
  - (ii) This affects the interests of the general investors and is essential to check this tendency.

## 5. Draw the organization structure of SEBI. Organization Structure of SEBI



### IV. Long Answer Questions.

#### 5 Marks

#### 1. What are the functions of SEBI?

**Ans.** The functions of SEBI are as follows:

- (i) Safeguarding the interests of investors by means of adequate education and guidance.
- (ii) Regulating and controlling the business on stock markets.
- (iii) Conduct inspection and inquiries of stock exchanges, intermediaries and self-regulating organisations and to take appropriate measures wherever required.
- (iv) Barring insider trading in securities.

### Sura's XII Std - Commerce

- (v) Prohibiting deceptive and unfair methods used by financial intermediaries operating in securities markets.
- (vi) SEBI Issues Guidelines and instructions to businesses concerning capital issues.
- (vii) SEBI regulates mergers and acquisitions as a way to protect the interest of investors.
- (viii) Registering and controlling the functioning of collective investment schemes such as mutual funds.
- (ix) Promoting self-regulatory organisation of intermediaries.
- (x) Carrying out steps in order to develop the capital markets.

### 2. Explain the powers of SEBI.

**Ans.** The various powers of SEBI are as follows:

- (i) Powers Relating to Stock Exchanges and Intermediaries: SEBI has wide powers regarding the stock exchanges and intermediaries dealing in securities. It can ask information from the stock exchanges and intermediaries regarding their business transactions for inspection or scrutiny and other purpose.
- (ii) Power to impose monetary penalties: SEBI has been empowered to impose monetary penalties on capital market intermediaries and other participants for a range of violations.
- (iii) Power to initiate actions in functions assigned: SEBI has a power to initiate actions in regard to functions assigned. For example, it can issue guidelines to different intermediaries or can introduce specific rules for the protection of interests of investors.
- (iv) Power to regulate insider trading
   : SEBI has power to regulate insider trading or can regulate the functions of merchant bankers.
- (v) Powers under securities contracts
  Act: For effective regulation of stock
  exchange, the Ministry of Finance issued
  a Notification on 13th September, 1994
  delegating several of its powers under the
  Securities Contracts (Regulations) Act to
  SEBI.

### 👣 Sura's XII Std - Commerce

(vi) Power to regulate business of stock exchanges: SEBI is also empowered to regulate the business of stock exchanges, intermediaries associated with the securities market as well as mutual funds, fraudulent and unfair trade practices relating to securities and regulation of acquisition of shares and takeovers of companies.

#### 3. What are the benefits of Dematerialisation?

- Ans. (i) The risks pertaining to physical certificates like loss, theft, forgery and damage are eliminated completely with a DEEMAT account.
  - (ii) The lack of paperwork enables quicker transactions and higher efficiency in trading.
  - (iii) Trading has become more convenient as one can trade through computers at any location, without the need of visiting a broker.

- (iv) The shares that are created through mergers and consolidation of companies are credited automatically in the DEMAT account.
- (v) As all the transactions occur through the depository participant, a trader does not have to communicate individually with each and every company.
- (vi) There is no need for stamp duty for transfer of securities, this brings down the cost of transaction significantly.
- (vii) Certain banks also permit holding of both equity and debt securities in a single account.
- (viii) Banks also provides dedicated and trained customer care officers to assist through all the procedures.
- (ix) A DEMAT account holder can buy or sell any amount of shares.
- (x) One can also choose to take a loan against securities which are held in a DEMAT account by offering it as a collateral to the lender.

### Additional Questions and Answers

### I. Choose the Correct Answers. 1 Mark

### I. CHOOSE THE CORRECT OPTION:

- 1. Which of the following is true?
  - (a) SEBI was first established in the year 1988
  - (b) SEBI was given statutory powers in the year 1992
  - (c) SEBI has its head quarters in Mumbai
  - (d) SEBI encourage insider trading in securities

[Ans. (d) SEBI encourage insider trading in securities]

- 2. Securities and exchange Board of India was first established in the year
  - (a) 1980

(b) 1986

(c) 1988

(d) 1990

[Ans. (c) 1988]

- SEBI is an apex body that maintains and regulates our
  - (a) capital market
- (b) mutual funds
- (c) share capital
- (d) none of these

[Ans. (a) capital market]

- 4. The capital market is meaningless in the absence of the
  - (a) Brokers

(b) Investors

(c) Owners

(d) employees

[Ans. (b) Investors]

5. SEBI issues Guidelines and Instructions to business concerning

(a) credit issues

(b) capital issues

(c) capital issues

(d) share capital

[Ans. (c) capital issues]

- 6. Registering and controlling the functioning of collective investment schemes such as
  - (a) mutual funds

(b) securities

(c) bonds

(d) debentures

[Ans. (a) mutual funds]

- 7. Stock exchanges deals in
  - (a) Goods
  - (b) Services
  - (c) Financial securities
  - (d) country's currency

[Ans. (c) Financial securities]

# Number of recognised stock exchange in India | 16. Which of the following words does not below

- 8. Numl
  (a) 2
- (b) 21
- (c) 22
- (d) 24

[Ans. (b) 21]

- 9. SEBI is formed as per
  - (a) Securities contract (Regulation) Act
  - (b) Companies Act
  - (c) Securities and Exchange Board of India Act
  - (d) Indian Constitution

[Ans. (c) Securities and Exchange Board of India Act]

- 10. SEBI has the following number of members including chairman.
  - (a) 5
- (b) 6
- (c) 7
- (d) 8

[Ans. (b) 6]

- 11. Which of the following statement is not correct about the SEBI?
  - (a) At present is a non statutory body
  - (b) At present it is a statutory body
  - (c) It got statutory powers by an ordinance in 1992
  - (d) SEBI is managed by 6 members

[Ans. (a) At present is a non statutory body]

- 12. Where is the headquarter of the SEBI?
  - (a) Delhi
- (b) Bengalure
- (c) Chennai
- (d) Mumbai

[Ans. (d) Mumbai]

- 13. Chairman of the SEBI is appointed for
  - (a) for maximum 3 years
  - (b) for maximum 6 years
  - (c) for maximum 5 years
  - (d) tenure not fixed

[Ans. (d) tenure not fixed]

- 14. A stock market is also called
  - (a) free market
- (b) open market
- (c) equity market
- (d) sports market

[Ans. (c) equity market]

- 15. SEBI has allowed celebs to endorse which products?
  - (a) Stocks and shares
- (b) Mutual funds
- (c) Dividends
- (d) Insurance

[Ans. (b) Mutual funds]

- 16. Which of the following words does not belong to the stock exchange?
  - (a) NAV
- (b) NSE
- (c) IPO
- (d) KPO

[Ans. (d) KPO]

- 17. Legal document required by securities Exchange commission stating associated risks and detailed description of issues is classified as
  - (a) prospectus
- (b) stated document
- (c) risk detailed document
- (d) exchange commission document

[Ans. (a) prospectus]

- 18. What is the meaning of "financing" in the financial market?
  - (a) Advising an organization to raise charity funds
  - (b) Investing in the securities market
  - (c) Sourcing funds
  - (d) Converting the assets into cash

[Ans. (c) Sourcing funds]

- 19. Which of the following is not a characteristic of an exchange?
  - (a) It allows securities to be listed on more than one exchange.
  - (b) It allows exchange-listed issues to trade off the exchange floor with the aid of brokers.
  - (c) It provides liquidity to individuals who acquire securities in the primary market.
  - (d) Stocks traded on an exchange must meet minimum listing requirements.

[Ans. (b) It allows exchange-listed issues to trade off the exchange floor with the aid of brokers]

- 20. The exchange generating the largest volume in the United States is the:
  - (a) American Stock
  - (b) New York Stock Exchange
  - (c) Chicago Stock Exchange
  - (d) Pacific Stock Exchange

[Ans. (b) New York Stock Exchange]

## 🕏 Sura's XII Std - Commerce

# II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.	List I			List II	
	i)	Regulation of stock exchange	1)	Reducing the risk of delivery	
	ii) Checking the insider trading		2)	Middlemen	
	iii)	iii) Protection to the investors		Buyer and selling of securities	
	iv)	Control over brokers	4)	First objective of SEBI	

### Codes:

	(1)	(11)	(111)	(1V)
(a)	4	3	1	2
(b)	1	2	3	4
(c)	3	4	2	1
(d)	2	1	4	3

[Ans. (a) (i)-4; (ii)-3; (iii)-1; (iv)-2]

2.		List I		List II
	i)	Brokers	1)	1988
	ii)	SEBI	2)	Physical share certificates
	iii)	Stock exchange	3)	Share market
	iv)	Dematerialisation	4)	Capital market

### Codes:

	(i)	(ii)	(iii)	(iv
(a)	4	1	3	2
(b)	1	2	3	4
(c)	2	3	4	1
(d)	2	1	2	1

[Ans. (a) (i)-4; (ii)-1; (iii)-3; (iv)-2]

3.		List I		List II
	i)	Dematerialisation	1)	Separation of ownership of securities
	ii)	Demutualisation	2)	An institution / orgnaisation which holdes securities
	iii)	Depository	3)	Securities on the stock exchange are knowns as listed securities
	iv)	Listed securities	4)	Converting physical certificates into electronic form

### Codes:

	(i)	(ii)	(iii)	(iv)
(a)	3	2	1	4
(b)	2	3	4	1
	_			_

(c) 2 1 4 3 (d) 4 3 1 2

[Ans. (b) (i)-2; (ii)-3; (iii)-4; (iv)-1]

4.	List I			List II
	i)	The first issue are floated	1)	Public issue
	ii)	Sale of new share	2)	Financial securities
	iii)	Stock exchange	3)	21
	iv)	Number of recognised stock	4)	Primary market

### Codes:

	(i)	(ii)	(iii)	(iv)	
(a)	3	2	1	4	
(b)	2	3	4	1	
(c)	2	1	4	3	
(d)	4	3	1	2	
		[Anc (	b) (i) 2.	(;;) 2. (	:::) 4.

### for Full Book Order online and Available at all Leading Bookstores

#### List II 5. List I Selling of Issue house 1) i) debentures **SEBI** ii) 2) Prospectus Circular in legal 3) Officer for sale iii) document 1988 Managing broker 4) iv)

### Codes:

- (i) (ii) (iii) (iv)
- (a) 3 2 1 4
- (b) 2 3 4 1
- (c) 2 1 4 3
- (d) 4 3 1 2 [Ans. (d) (i)-4; (ii)-3; (iii)-1; (iv)-2]

### [1113. (4) (1) 1, (11) 3, (11) 1, (17)

### III. CHOOSE AND FILL IN THE BLANKS.

- 1. Initially SEBI was a \_\_\_\_\_ without any statutory power.
  - (a) statutory
- (b) non-statutory
- (c) departmental
- (d) none of these

[Ans. (b) non-statutory]

- 2. \_\_\_\_ affects the interest of the general investors and is essential to check this tendency.
  - (a) Regulation of stock exchange
  - (b) Insider trading
  - (c) Protection to the investors
  - (d) Control over brokers

[Ans. (b) Insider trading]

- 3. Regulating and controlling the business on \_\_\_\_\_ markets.
  - (a) stock
- (b) exchange
- (c) capital
- (d) none of these

[Ans. (a) stock]

- 4. \_\_\_\_ conducts research and publishes information beneficial to all market players.
  - (a) WTO
- (b) HRM
- (c) Demat
- (d) SEBI

[Ans. (d) SEBI]

### Sura's XII Std - Commerce

- 5. \_\_\_\_\_ is done at the request of the investor.
  - (a) Materialization
  - (b) Dematerialization
  - (c) Depository Participant
  - (d) Demat account

[Ans. (b) Dematerialization]

- 6. \_\_\_\_\_ account holder can buy or sell any amount of shares.
  - (a) DEMAT
- (b) Equity
- (c) Cost
- (d) Management

[Ans. (a) DEMAT]

- 7. \_\_\_\_\_ is the supervisory body established to regulate Indian Stock Market.
  - (a) SEBI
- (b) Mutual fund
- (c) Primary market
- (d) Secondary market

[Ans. (a) SEBI]

- 8. \_\_\_\_ account can be opened with no balance of shares.
  - (a) Fixed
  - (b) Current
  - (c) Demat
  - (d) Recurring deposit

[Ans. (c) Demat]

### IV. PICK THE ODD ONE OUT.

- 1. (a) PAN Card
- (b) ID Card
- (c) Voters Id
- (d) Social Order

[Ans. (d) Social Order]

**Reason:** Social order ensures the fluid operation of a company through authoritative procedure. Other three are proof of identify.

- 2. (a) Regulation of Stock Exchange
  - (b) Jobbers
  - (c) Insider trading
  - (d) Control over brokers

[Ans. (b) Jobbers]

**Reason :** Jobbers are security merchants dealing in shares, debentures as independent operators.

### Sura's XII Std - Commerce

### WHICH OF THE FOLLOWING IS CORRECTLY MATCHED?

- (a) Mutual Funds
- Mumbai
- (b) Dematerialisation
- Deemat account
- (c) Depository participant Supervising body
- (d) Materialisation
- Governing body

[Ans. (b) Dematerialisation – Deemat account

#### V. CONSIDER THE FOLLOWING STATEMENT.

1. Assertion (A): Registering and controlling the functioning of collective investment schemes such as mutual funds.

Reason (R) : SEBI has created regulations and guidelines that should be followed by mutual funds.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

Assertion (A): Dematerialization is done at the request of the investor.

Reason (R) : A DEMAT account holder can buy or sell any amount of shares.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

Assertion (A): Sensex is the benchmark of the Bombay Stock Exchange (BSE).

Reason (R) : Sine, BSE is a leading stock exchange of Indian stock market, the SENSEX is an important indicator of Indian stock market.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

**Assertion (A):** Stock Exchange According to **4.** Securities Contracts (Regulation) Act, 1956.

Reason (R) : 'Stock exchange means any body of individuals, whether incorporated or not, constituted for the business of buying and selling or dealing in securities.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is the correct explanation of (A)]

### VI. CHOOSE THE CORRECT STATEMENT.

- (i) A demat account holds all the shares 1. that are purchase in electronic or dematerialized form.
  - (ii) Certain banks also permit holding of both equity and debit securities in a single
  - (iii) The lack of paper work enables quicker transactions and higher efficiency in trading.
  - (a) (i) is correct
  - (b) (i) and (ii) are correct
  - (c) (ii) and (iii) are correct
  - (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

- (i) In case of the BSE, dematerialization of 2. shares commenced in the year December 1988.
  - (ii) Dematerialised shares do not have any distinctive numbers.
  - (iii) SEBI is also empowered by the finance Ministry to nominate three members on the Governing Body of every stock exchange.

- (a) (i) is correct
- (b) (i) and (ii) are correct
- (c) (ii) and (iii) are correct
- (d) (i), (ii) and (iii) are correct

[Ans. (c) (ii) and (iii) are correct]

### IV. Long Answer Questions. 5 Marks

### 1. What are the objectives of SEBI?

**Ans.** The various objectives of a stock exchange are explained below.

**Regulation of Stock Exchanges :** The first objective of SEBI may be provided to all the parties operating there.

(ii) Protection to the Investors: The capital market in meaningless in the absence of the investors. Therefore, it is important to protect the interests of the investors.

Sura's XII Std - Commerce

- (iii) Checking the Insider Trading: Insider trading means the buying and selling of securities by directors, promoters etc. This affect the interests of the general investors and is essential to check this tendency.
- (iv) Control Over Brokers: It is important to supervise / check the activities of the brokers and other middleman in order to control the capital market.



# UNIT IV

# HUMAN RESOURCE MANAGEMENT

**CHAPTER** 

9

# FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

### CHAPTER SNAPSHOT

- 9.1 Meaning and Definition of Human Resource
- 9.2 Characteristics of Human Resources
- 9.3 Significance of Human Resources
- 9.4 Meaning and Definition of Human Resource Management
- 9.5 Features of Human Resource Management
- 9.6 Significance of Human Resource Management
- 9.7 Functions of Human Resource Management

### **EXERCISE**

### I. Choose the Correct Answers. 1 Mark

- 1. Human resource is a \_\_\_\_\_ asset.

  (a) Tangible
  (b) Intangible
  (c) Fixed
  (d) Current

  [Ans. (b) Intangible]
- 2. Human Resource management is both and .
  - (a) Science and art
    - (b) Theory and practice
    - (c) History and Geography
    - (d) None of the above

[Ans. (a) Science and art]

- 3. Planning is a \_\_\_\_\_ function.
  - (a) selective
- (b) pervasive
- (c) both a and b
- (d) none of the above

[Ans. (b) pervasive]

- 4. Human resource management determines the \_\_\_\_\_ relationship.
  - (a) internal, external
  - (b) employer, employee
  - (c) Owner, Servant
  - (d) Principle, Agent

[Ans. (b) employer, employee]

- 5. Labour turnover is the rate at which employees \_\_\_\_\_ the organisation
  - (a) enter
  - (b) leave
  - (c) Salary
  - (d) None of the above

[Ans. (b) leave]

78