VIVEKANANDA MATRICULATION HR.SEC.SCHOOL,SIRKALI

XII- COMMERCE

STUDY NOTES

D.Chithambararaj MBA,M.Com,B.Ed.

2019-2020

CHAPTER 1: PRINCIPLES OF MANAGEMENT

I .VERY SHORT ANSWER QUESTIONS:

1. What is Management?

- Management is goal oriented and it is an art of getting things done with and through others.
- The practice of management helps to achieve the organizational mission and determines the future of the business enterprises.

2. List out the management tools.

- Tools of management have been developed such as, accounting, business law, psychology, statistics, econometrics, data processing, etc.
- These branches of management profession have enhanced the practical utility of the science of management.

3. Who is a manager?

- According to P. Drucker, the manager has to balance and integrate three major jobs of a business enterprise as mentioned below

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

- A manager is a dynamic and life-giving element in every business.

4. State the meaning of Authority.

- Authority means the right of a superior to give the order to his subordinates

5. What do you mean by Span of management?

- The Span of Management refers to the number of subordinates who can be managed efficiently by a superior.

II. SHORT ANSWER QUESTIONS:

1. Define the term management.

"Management is a multipurpose organ that manages a business and manages manager, and manages worker and work." — Peter F. Drucker

"To manage is to forecast, to plan, to organise, to command, to co-ordinate and to control." —Henry Fayol.

2. Is management an Art or Science?

Management is neither a science nor an art, but a combination of both requiring people holding managerial positions to apply the scientific management principles and displaying popular managerial skills to accomplish the organizational goals as efficiently and as quickly as possible so as to be competitive in the globalised environment of business.

3. Differentiate management from Administration.

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Meaning	An organized way of managing people and things of a business organization is called the Management	The process of administering an organization by a group of people is known as the Administration.
Authority	Middle and Lower Level	Top Level
Role	Executive	Decisive
Concerned with	Policy Implementation	Policy Formulation

4. What are the principles of Taylor?

Principles of scientific management propounded by Taylor are

1. Science, Not Rule of Thumb
2. Harmony, Not Discord
3. Mental Revolution
4. Cooperation, Not Individualism
5. Development of each and every person to his or her greatest efficiency and prosperity.

5. **What determines the span of management?**
   The Span of Management refers to the number of subordinates who can be managed efficiently by a superior.
   The Span of Management has two implications:
   1. Influences the complexities of the individual manager's job
   2. Determine the shape or configuration of the Organization

III. Long answer questions:

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

Drucker stresses three jobs of management:

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

Even if one is omitted, It would not have management anymore and it also would not have a business enterprise or an industrial society.

According to P. Drucker, the manager has to balance and integrate three major jobs of a business enterprise as mentioned above. Hence, a manager is a dynamic and life giving element in every business. Without efficient management it cannot be secure the best allocation and utilisation of human, material and financial resources.

2. **Explain the management process in detail.**
   1. **Management is Co-Ordination:**
      The manager of an enterprise must effectively coordinate all activities and resources of the organisation, namely, men, machines, materials and money the four M's of management.
   2. **Management is a Process:**
      The manager achieves proper coordination of resources by means of the managerial functions of planning, organising, staffing, directing (or leading and motivating) and controlling.
   3. **Management is a Purposive Process:**
      It is directed toward 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.
   4. **Management is a Social Process:**
      It is the art of getting things done through other people.
   5. **Management is a Cyclical Process:**
      It represents planning-action-control-replanning cycle, i.e., an ongoing process to attain the planned goals.

3. **Describe the principles of scientific management.**
   Mr.Frederick Winslow Taylor (F.W.Taylor) brought about a scientific approach.
   1. **Science, Not Rule of Thumb:**
      - ✓ Rule of Thumb means decisions taken by manager as per their personal judgments.
      - ✓ According to Taylor, even a small production activity like loading iron sheets into box cars can be scientifically planned.
      - ✓ This principle is concerned with selecting the best way of performing a job through the application of scientific analysis and not by intuition or hit and trial methods.
   2. **Harmony, Not Discord:**
      - ✓ Taylor emphasized that there should be complete harmony between the workers and the management
      - ✓ Both the management and the workers should realize the importance of each other.
      - ✓ Management should always be ready to share the gains of the company with the workers and the latter should provide their full cooperation and hard work for achieving organizational goals.

3. **Mental Revolution:**
   - ✓ Management as well as the workers should aim to increase the profits of the organisation.
   - ✓ workers should put in their best efforts so that the company makes profit and on the other hand management should share part of profits with the workers.
   - ✓ Thus, mental revolution requires a complete change in the outlook of both management and workers.
4. **Cooperation, Not Individualism:**
   - ✓ Cooperation, mutual confidence, sense of goodwill should prevail among both, managers as well as workers.
   - ✓ Workers should be considered as part of management and should be allowed to take part in decision making process of the management.
   - ✓ workers should also resist from going on strike or making unnecessary demands from management.
5. **Development of each and every person to his or her greatest efficiency and prosperity:**
   - ✓ Efficiency of any organisation also depends on the skills and capabilities of its employees to a great extent.
   - ✓ To attain the efficiency, steps should be taken right from the process of selection of employees.
   - ✓ The work assigned to each employee should suit his/her physical, mental and intellectual capabilities.
   - ✓ This ultimately helps to attain efficiency and prosperity for both organisation and the employees.

4. Explain the principles of modern management.

The Father of Modern Management is Mr.Henry Fayol, and according to him there are 14 major principles of management.

1. **Division of Work:** According to this principle the whole work is divided into small tasks. It leads to specialization which increases the efficiency of labour.
2. **Authority and Responsibility:** Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.
3. **Discipline:** It is obedience, proper conduct in relation to others, respect of authority, etc. It is essential for the smooth functioning of all organizations.
4. **Unity of Command:** This principle states that each subordinate should receive orders and be accountable to one and only one superior. If an employee receives orders from more than one superior, it is likely to create confusion and conflict.
5. **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.
6. **Subordination of Individual Interest to Mutual Interest:** The management must put aside personal considerations and put company objectives firstly. Therefore the interests of goals of the organization must prevail over the personal interests of individuals.
7. **Remuneration:** Workers must be paid sufficiently as this is a chief motivation of employees and therefore greatly influences productivity.
8. **The Degree of Centralization:** Centralization implies the concentration of decision making authority at the top management, it depends on company size.
9. **Line of Authority/Scalar Chain:** The principle suggests that there should be a clear line of authority from top to bottom linking all managers at all levels.
10. **Order:** Social order ensures the fluid operation of a company through authoritative procedure. Material order ensures safety and efficiency in the workplace. Order should be acceptable and under the rules of the company.
11. **Equity:** Employees must be treated kindly. Managers should be fair and impartial when dealing with employees, giving equal attention towards all employees.
12. **Stability of Tenure of Personnel:** Stability of tenure of personnel is a principle stating that in order for an organization to run smoothly, personnel (especially managerial personnel) must not frequently enter and exit the organization.

13. Initiative: Using the initiative of employees can add strength and new ideas to an organization. Initiative on the part of employees is a source of strength for organization because it provides new and better ideas.

14. Esprit de Corps/Team Spirit: This refers to the need of managers to ensure and develop morale in the workplace; individually and communally. Team spirit helps develop an atmosphere of mutual trust and understanding. Team spirit helps to finish the task on time.

5. Discuss the implications of span of management

The Span of Management has two implications:
1. Influences the complexities of the individual manager's job
2. Determine the shape or configuration of the Organization

- There is a wide and a narrow span of management.

Wide Span of Management:

- there will be less hierarchical levels, and thus, the organizational structure would be flatter
- It will be very difficult for a superior to manage a large number of subordinates at a time and also may not listen to all efficiently.
- Number of managers gets reduced in the hierarchy, and thus, the expense in terms of remuneration is saved.
- The subordinates feel relaxed and develop their independent spirits in a free work environment, where the strict supervision is absent.

Narrow span of Management:

- The hierarchical levels increases, hence the organizational structure would be tall and more challenges.
- Less number of subordinates under one superior, requires more managers to be employed in the organization.
- It would be very expensive in terms of the salaries to be paid to each senior.
- Communication suffers drastically.
- Lack of coordination and control because the operating staff is far away from the top management.
- Cross communication gets facilitated, i.e., operative staff communicating with the top management. Also, the chance of promotion increases with the availability of several job positions.

<u>**Chapter 2: FUNCTIONS OF MANAGEMENT:**</u>

I. Very Short Answer Questions:

1. Write a short note about Planning.

- ✓ Planning is the primary function of management. Nothing can be performed without planning.
- ✓ Planning refers to deciding in advance. Planning should take place before doing.

2. What is meant by Motivation?

- ✓ It is the process of stimulating people to actions to accomplish the goal.
- ✓ Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers.

3. What is meant by Controlling?

- ✓ It is the control function which facilitates synchronization of actual performance with predetermined standards.
- ✓ Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions.

4. How do you coordinate your classroom with peace?

Peace starts with each individual, and the way you act affects the world around you." Allow the children to respond. Express your interest in getting to know each student and your willingness to be there for them if they have a problem. You might say something like: "I want us to have a great year together.

5. What is meant by Innovation?

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

II. Short Answer Questions:

1. **List out the main functions of management?**
    - Planning
    - Organizing
    - Staffing
    - Directing
    - Motivating
    - Controlling
    - Coordination
2. **State the importance of staffing.**
    - Staffing refers to placement of right persons in the right jobs.
    - The success of any enterprise depends upon the successful performance of staffing function.
    - Staffing helps to ensure better utilization of human resources.
    - It ensures the continuity and growth of the organization, through development managers.
3. **Bring out the subsidiary functions of management.**

✓ **Innovation**- Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.

✓ **Representation**- A manager has to act as representative of a company. It is the duty of every manager to have good relation with others

✓ **Decision making**- Decision making helps in the smooth functioning of an organisation.

✓ **Communication**- Communication is the transmission of human thoughts, views or opinions from one person to another person.

4. **State the importance of Motivation.**
    - ✓ Mainly because it allows management to meet the company's goals.
    - ✓ Motivated employees can lead to increased productivity and allow an organisation to achieve higher levels of output.
    - ✓ Motivation is an important factor which brings employees satisfaction.
5. **What are the main duties of a manager?**
    - ✓ The primary role of a manager is to ensure the daily functioning of a department or group of employees.
    - ✓ Most employers expect their managers to interview, hire, and train new employees.
    - ✓ A manager articulates both short and long-term goals to ensure a company’s longevity.
    - ✓ Managers complete administrative work and correspond with other departments.

III. Long Answer Questions:

1. Explain the various functions of management.

Main Functions:

1. **Planning:** Planning is the primary function of management. Nothing can be performed without planning. Planning refers to deciding in advance. Planning should take place before doing.
2. **Organising:** Organising is the process of establishing harmonious relationship among the members of an organisation and the creation of network of relationship among them.
3. **Staffing:** staffing refers to placement of right persons in the right jobs. The success of any enterprise depends upon the successful performance of staffing function
4. **Directing:** Directing denotes motivating, leading, guiding and communicating with subordinates on an ongoing basis in order to accomplish pre-set goals.
5. **Motivating:** It is the process of stimulating people to actions to accomplish the goal. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers.
6. **Controlling:** It is the control function which facilitates synchronization of actual performance with predetermined standards.

7. **Co ordination:** Co-ordination is the synchronization of the actions of all individuals, working in the enterprise in different capacities.

Subsidiary Functions:

1. **Innovation:** Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.
2. **Representation:** A manager has to act as representative of a company. It is the duty of every manager to have good relation with others.
3. **Decision-making:** Every employee of an organisation has to take a number of decisions every day. Decision making helps in the smooth functioning of an organization.
4. **Communication:** Communication is the transmission of human thoughts, views or opinions from one person to another person.

Chapter 3: MANAGEMENT PROCESS:

I. Very Short Answer Questions:

1. Define - MBO

"MBO is a system wherein the superior and the sub-ordinate managers of an organisation jointly identify its common goals, define each individual's major area of responsibility in terms of the result expected of him and use these measures guides for operating the unit and assessing the contribution of each of its members". - George Odiorne

2. What are the objectives of MBO?

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 enhance communications between superiors and subordinates

3. Bring out the meaning of MBE.

- Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norm.
- Management by exception is the practice of examining the financial and operational results of a business, and only bringing issues to the attention of management if results represent substantial differences from the budgeted or expected amount.

4. Mention any two advantages of MBO?

- MBO process helps the managers to understand their role in the total organisation.
- Manager recognises the need for planning and appreciates the planning.
- Systematic evaluation of performance is made with the help of MBO

5. Write any two importance of MBE.

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

6. What is known as KRA?

- 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.
- The examples of KRA are profitability, market standing, innovation etc.

II. Short Answer Questions:

1. Write the features of MBO.

- ➢ MBO tries to combine the long run goals of organisation with short run goals.
- ➢ Management tries to relate the organisation goals with society goals.
- ➢ MBO's emphasis is not only on goals but also on effective performance.
- ➢ A high degree of motivation and satisfaction is available to employees through MBO.
- ➢ Recognizes the participation of employees in goal setting process.

2. What are the process involved in MBO?

1. Defining Organisational Objectives
2. Goals of Each Section
3. Fixing Key Result Areas
4. Setting Subordinate Objectives or Targets
5. Matching Resources with Objective
6. Periodical Review Meetings
7. Appraisal of Activities
8. Reappraisal of Objectives

3. What are the Process of MBE?

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

4. List out any Four process of MBO.

1. Defining Organisational Objectives
2. Goals of Each Section
3. Fixing Key Result Areas
4. Setting Subordinate Objectives or Targets

III. Long Answer Questions:

1. What are the major advantages of MBO?

- MBO process helps the managers to understand their role in the total organisation.
- Manager recognises the need for planning and appreciates the planning.
- MBO provides a foundation for participative management. Sub-ordinates are also involved in goal setting.
- Systematic evaluation of performance is made with the help of MBO.
- MBO gives the criteria of performance. It helps to take corrective action.
- Delegation of authority is easily done with the help of MBO.
- MBO motivates the workers by job enrichment and makes the jobs meaningful.
- The responsibility of a worker is fixed through MBO.

2. What are the advantages of MBE?

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.

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.

1. 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?

2. 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.

3. MBO emphasises only on short-term objectives and does not consider the longterm objectives.

4. The status of subordinates is necessary for proper objectives setting. But, this is not possible in the process of MBO.

5. 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

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. Managing employees who deviate from the normal procedures. Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.

<u>Chapter 4: FINANCIAL MARKETS:</u>

I. Very Short Answer Questions:

1. What are the components of organized sectors?

Organized sector consist of,

i.Regulators ii. Financial Institutions iii. Financial Markets and Financial Services

2. Write a note on financial market.

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?

- ✓ It is the financial market for trading in Equity Shares of Companies
- ✓ An equity market is a market in which shares are issued and traded, either through exchanges or over-the-counter markets.

4. What is debt market?

- ✓ It 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?

Prices in the secondary market are determined by the basic forces of supply and demand. If the majority of investors believe a stock will increase in value and rush to buy it, the stock's price will typically rise.

II. Short Answer Questions:

1. Give the meaning and definition of financial market.

Meaning:

A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'.

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.

(i) **Cash/Spot Market** is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

(ii) **Forward or Futures Market** is a market where the delivery of asset and payment of cash takes place at a pre-determined time frame in future.

3. Write a note on Secondary Market.

- The place where formerly issued securities are traded is known as Secondary Market.(Resale Market)
- Secondary Market is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.
- It does not provide funding to companies

4. Bring out the scope of financial market in india.

- ➢ 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.
- ➢ With the help of the financial market all the above stated individuals, institutions and the Government can get their required funds in time.

- Through the financial market the institutions get their short term as well as long term financial assistance. It leads to the overall economic development.

III. Long Answer Questions:

1. Distinguish between new issue market and secondary market.

BASIS FOR COMPARISON	NEW ISSUE MARKET	SECONDARY MARKET
Meaning	The market place for new shares is called primary market. (Initial Issues Market)	The place where formerly issued securities are traded is known as Secondary Market. (Resale Market)
Buying	Direct	Indirect
Gained person	Company	Investors
Intermediary	Underwriters	Brokers
Buying and Selling between	Company and Investors	Investors
How can securities be sold?	Only Once	Multiple times
Organizational difference	Not rooted to any specific spot or geographical location	It has physical existence

2. Enumerate the different kinds of financial markets or discuss the various types of financial markets

a. On the Basis of Type of Financial Claim

(i) **Debt Market** is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, Corporate Debentures or Bonds)

(ii) **Equity Market** is the financial market for trading in Equity Shares of Companies.

b. On the Basis of Maturity of Financial Claim

(i) **Money Market** is the market for short term financial claim (usually one year or less) E.g. Treasury Bills, Commercial Paper, Certificates of Deposit

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

C. On the Basis of Time of Issue of Financial Claim

(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 (companies). Here the money from investors goes directly to the issuers.

(ii) **Secondary Market** is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.

d. On the Basis of Timing of Delivery of Financial Claim

(i) **Cash/Spot Market** is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

(ii) **Forward or Futures Market** is a market where the delivery of asset and payment of cash takes place at a pre-determined time frame in future.

e. On the Basis of the Organizational Structure of the Financial Market

(i) **Exchange Traded Market** is a centralized organization (stock exchange) with standardized procedures.

(ii) **Over–the–Counter Market** is a decentralized market (outside the stock exchange) with customized procedures.

The above classification is not rigid. One market may come under more than one category.

3. Discuss the role of financial market.

(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?

I. INTERMEDIARY FUNCTIONS:

(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) Price Determination:

Financial 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, through the mechanism called price discovery processes.

(vi) 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.

(vii) 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 THE FINANCIAL FUNCTIONS:

(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.

Chapter 5: CAPITAL MARKET

I. Very Short Answer Questions:

1. What is Capital Market?

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

2. Write a note on OTCEI.

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

3. What is Mutual Fund?

- Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual Funds'.
- A mutual fund company invests the funds pooled from shareholders and gives them the benefit of diversified investment portfolio and a reasonable return.

4. Who are the participants in a Capital Market?

The capital market consists of development banks, commercial banks and stock exchanges.

5. How is price determined in a Capital Market?

After a company goes public and starts trading on the exchange, its price is determined by supply and demand for its shares in the market.

II. Short Answer Questions:

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

I Primary Market:

Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue Market.

II Secondary Market:

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. The trading takes place between investors.

2. Explain any two functions of Capital Market.

(i) Savings and Capital Formation:

In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Govt., etc.)

(ii) Reliable Guide to Performance:

The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency.

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

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

- Its prescribes the terms and conditions of contract for the securities market
- Its aims at determining the net cash and stock liability of each broker on a settlement date
- Its 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.

- 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.
- During the period between 1980 and 1992, debenture emerged as a powerful instrument of resource mobilization in the primary market.
- A number of stock exchanges came into existence. There was a momentous growth in the secondary market.
- SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors.

5. Explain about Factoring and Venture Capital Institutions.

(i) Factoring Institutions:

"Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/ sale of account receivables. The factoring institutions collect the book debts for and on behalf of its clients.

(ii) Venture Fund Institutions:

- Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- Venture capital funds bring into force the hi-technology projects which are converted into commercial production.

III. Long Answer Questions:

1. Discuss the characters of a Capital Market.

(i) Securities Market:

The dealings in a capital market are done through the securities like shares, debentures, etc. The capital market is thus called 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, Govt., 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 wellknown centers known as Stock Exchanges.

(v) Market for Financial Assets:

Capital market provides a transaction platform for long term financial assets

2. Briefly explain the functions of capital market.

(i) Savings and Capital Formation:

In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Govt., etc.) This accelerates the capital formation in the country.

(ii) Permanent Capital:

- The existence of a capital market/stock exchange enables companies to raise permanent capital.
- The stock exchange resolves this dash of interests by offering an opportunity to investors to buy or sell their securities, while permanent capital with the company remains unaffected.

(iii) Industrial Growth:

The stock exchange is a central market through which resources are transferred to the industrial sector of the economy

(iv) Ready and Continuous Market:

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

(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 Channelization 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. This ensures effective utilisation of funds in the public interest.

vii) Development of Backward Areas:

Capital Markets provide funds for projects in backward areas. This facilitates economic development of backward areas. Long term funds are also provided for development projects in backward and rural areas.

(viii) Easy Liquidity:

With the help of secondary market investors can sell off their holdings and convert them into liquid cash. Commercial banks also allow investors to withdraw their deposits, as and when they are in need of funds.

3. Explain the various types of New Financial Institutions

(i) Venture Fund Institutions:

Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas. Venture capital funds bring into force the hi-technology projects which are converted into commercial production.

(ii) Mutual Funds:

Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual Funds'.

(iii) Factoring Institutions:

"Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/ sale of account receivables. The factoring institutions collect the book debts for and on behalf of its clients.

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

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

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

NSEI was established in 1992 to function as a model stock exchange. The Exchange aims at providing the advantage of nationwide 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:

The NSDL was set up in the year 1996 for achieving a time bound dematerialization as well as rematerialization of shares.

viii) Stock Holding Corporation of India Limited (SHCIL):

Stock Holding Corporation of India Limited (SHCIL) aims at serving as a central securities depository in respect of transactions on stock exchanges.

<u>Chapter 6: MONEY MARKET</u>

I. Very Short Answer Questions:

1. Define the term "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".

2. What is commercial bill market?

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.

3. What is a CD market?

- ✓ 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.

4. What is Government Securities Market?

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?

- ✓ Treasury Bills
- ✓ Commercial Bills
- ✓ Certificate of Deposits
- ✓ Government Securities

6. Explain the two oldest money markets.

Treasury bill:

A Treasury bill is nothing but a promissory note issued for a specified period stated therein. The Government promises to pay the specified amount mentioned therein to the bearer of the instrument on the due date. The period does not exceed a period of one year.

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.

7. What do you meant by Auctioning?

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?

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'.

II. Short Answer Questions:

1. What are the features of Treasury Bills?

Treasury Bills incorporate the following general features.

1.Issuer
2.Finance Bills
3.Liquidity
4.Vital Source
5.Monetary Management

2. Who are the participants of Money Market?

There are many participants operating in the Money Market. The participants deal with the money market instruments like Treasury Bills, Commercial Bills, Commercial Papers, etc.,

1.Government of different countries
2.Central Banks of different countries
3.Private and Public Banks
4.Mutual Funds Institutions
5.Insurance Companies
6.Non-Banking Financial Institutions
7.RBI and SBI

3. Explain the types of Treasury Bills?

Treasury Bills may be classified into three. They are:

1)91 days Treasury Bills : Its issued at a fixed discount rate of 4 per cent as well as through auctions.

2)182 days Treasury Bills: The RBI holds 91 days and 182 Treasury Bills and they are issued on tap basis throughout the week.

3)364 days Treasury Bills: 364 days Treasury Bills do not carry any fixed rate. 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?

- ✓ Document of title to time deposit
- ✓ It is unsecured negotiable instruments.
- ✓ It is freely transferable by endorsement and delivery.
- ✓ It is issued at discount to face value.
- ✓ It is repayable on a fixed date without grace days.

5. What are the types of Commercial Bill?

- Demand and Usance Bills
- Clean bills and documentary Bills
- Inland bills and Foreign Bills
- Indigeneous Bills
- Accommodation and supply Bills

III. Long Answer Questions:

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

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".

Capital Market :

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".

SL.NO	FEATURES	MONEY MARKET	CAPITAL MARKET
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 (bill of exchange, treasury bill, commercial papers etc.).	It deals with instruments like shares, debentures, Government bonds, etc.,
3	Role of Major Institution	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.
4	Availability of Instruments	Money Market instruments generally do not have secondary market.	Capital market instruments generally have secondary markets.
5	Subdivision	In money market there is no such subdivision.	In capital market there is a division of primary market and secondary market.
6	Place of Transaction	Transactions mostly take place over the phone and there is no formal place.	Transactions take place at a formal place. Eg. stock exchange.
7	Risk	Low credit and market risk.	High credit and market risk
8	Liquidity	High liquidity in Money Market	Low liquidity in Capital Market

2. Explain the characteristics of Money Market?

1.Short-term Funds

It is a market purely for short-term funds or financial assets called near money.

2.Maturity Period

It deals with financial assets having a maturity period upto one year only.

3.Conversion of Cash

It deals with only those assets which can be converted into cash readily without loss and with minimum transaction cost.

4.Existence of Secondary Market

There should be an active secondary market for these instruments.

5.Demand and Supply of Funds

There should be a large demand and supply of short-term funds. It presupposes the existence of a large domestic and foreign trade.

6.Wholesale Market

It is a wholesale market and the volume of funds or financial assets traded in the market is very large.

7.Flexibility

Due to greater flexibility in the regulatory framework, there are constant endeavours for introducing new instruments.

8.No Formal Place

Generally, transactions take place through phone, i.e., oral communication.

3. Explain the Instruments of Money Market?

I.Treasury bill :

- A Treasury bill is nothing but a promissory note issued for a specified period stated therein.
- The Government promises to pay the specified amount mentioned therein to the bearer of the instrument on the due date.
- The period does not exceed a period of one year

Features:

1.Issuer 2.Finance Bills 3.Liquidity 4.Vital Source 5.Monetary Management

Types:

On the basis of periodicity, Treasury Bills may be classified into three. They are:

1)91 days Treasury Bills

2)182 days Treasury Bills and 3)364 days Treasury Bills

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.
- The Certificate of Deposit is transferable from one party to another.

Features of Certificate of Deposit

1. Document of title to time deposit
2. It is unsecured negotiable instruments.
3. It is freely transferable by endorsement and delivery.
4. It is issued at discount to face value.
5. It is repayable on a fixed date without grace days.

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.

Types of Commercial Bill:

- Demand and Usance Bills
- Clean bills and documentary Bills
- Inland bills and Foreign Bills
- Indigeneous Bills
- Accommodation and supply Bills

4. Explain the features and types of Commercial Bills?

Features

The features of the Commercial Bills are as follows:

1. Drawer
2. Acceptor
3. Payee
4. Discounter
5. Endorser
6. Assessment
7. Maturity
8. Credit Rating

Types

a. Demand and Usance Bills

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

b. Clean bills and documentary Bills

Bills that are accompanied by documents of title to goods are called documentary bills. Clean bills are drawn without accompanying any document.

E.g. Railway Receipt and Lorry Receipt

c. Inland bills and Foreign Bills

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

d. Indigeneous Bills

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

e. 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?

1. Agencies

Government securities are issued by agencies such as Central Government, State Governments, semi-government authorities like local Government authorities, e.g. municipalities, autonomous institution such as metropolitan authorities, port trusts etc.,

2. 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.

3. Nature of Securities

Securities offer a safe avenue of investment through guaranteed payment of interest and repayment of principal by the Government.

4. Liquidity Profile

The liquidity profile of gilt-edged securities varies. Accordingly liquidity profile of securities issued by Central Government is high.

5. Issue Mechanism

The Public Debt Office (PDO) of the RBI undertakes to issue government securities.

6. Issue opening

A notification for the issue of the securities is made a few days before the public subscription is open.

7. Switching

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'.

8. Auctioning

A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as 'auctioning'.

Chapter 7: STOCK EXCHANGE

I. Very Short Answer Questions:

1. What is meant Stock Exchange?

- Stock Exchange is an organized market for the purchase and sale of industrial and financial security.
- Stock Exchange (also called Stock Market or Share Market) is one of the important constituents of Capital market.
- It is an investment intermediary and facilitates economic and industrial development of a country.

2. Define Stock Exchange.

According to Husband and Dockerary, "Stock exchanges are privately organized markets which are used to facilitate trading in securities."

3. Write any 5 Stock Exchanges in India.

- ✓ The Bombay Stock Exchange
- ✓ The National Stock Exchange of India (NSE) Ltd.
- ✓ The Coimbatore Stock Exchange Ltd.
- ✓ The Madras Stock Exchange Ltd
- ✓ Bangalore Stock Exchange Ltd.

4. What is meant by Remisier?

He acts as an agent of a member of a stock exchange. He obtains business for his principal ie., the member and gets a commission for that service.

5. Who is called a Broker?

- ✓ Brokers are commission agents, who act as intermediaries between buyers and sellers of securities.
- ✓ They do not purchase or sell securities on their behalf. They bring together the buyers and sellers and help them in making a deal.
- ✓ Brokers charge a commission from both the parties for their service.

6. What are the types of Speculator?

- ✓ Bull
- ✓ Bear
- ✓ Stag
- ✓ Lame Duck

7. What is meant by Commodity Exchange?

A commodity exchange is an exchange where commodities are traded. Tradable commodities fall into the following categories.

- ❖ Metals (e.g. gold, silver,copper)
- ❖ Energy (e.g. crude oil, natural gas)
- ❖ Agricultural (e.g. rice, wheat, cocoa)
- ❖ Livestock and meat (e.g. live cattle, lean hog)

8. Mention the Recent Development in Stock Exchange?

The structure of stock market in India has undergone a vast change due to the liberalization process initiated by the Government.

A number of new structures have been added to the existing structure of the Indian stock exchange.

1. National Stock Exchange of India Limited (NSE)
2. Stock Holding Corporation of India Limited (SHCIL)
3. National Clearing and Depository System (NCDS)
4. Securities Trading Corporation of India (STCI)
5. National Securities Depositary Limited (NSDL)

9. What is the stock trading time in India?

- ❖ The timing of both BSE & NSE is the same.
- ❖ Stock market in India is closed on weekends i.e. Saturday and Sunday.
- ❖ It is also closed on the national holidays.
- ❖ The normal trading time for equity market is between 9:15 a.m to 03:30 p.m, Monday to Friday.

10. Explain Dalal Street.

- ✓ Dalal Street is an area in downtown Mumbai, India, that houses the Bombay Stock Exchange (BSE) – the largest stock exchange in India – and other reputable financial institutions.
- ✓ It received the name Dalal Street after the Bombay Stock Exchange moved to the area in 1874 and became the first stock exchange recognized by the Indian Government.
- ✓ The literal translation of Dalal in Marathi is a broker or intermediary.

II. Short Answer Questions:

1. What are the limitations of Stock exchange?

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 charge in the place.
v. No proper regulation of listing of securities on the stock exchange

2. Explain Bull and Bear.

Bull:

- ✓ A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future.
- ✓ The bull speculator stimulates the price to rise. He is an optimistic speculator.
- ✓ 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

Bear:

- ✓ 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.
- ✓ The bear speculator tends to force down the prices of securities. A bear is a pessimistic speculator.

3. Explain Stag and Lame Duck.

Stag:

- ❖ A stag is a cautious speculator in the stock exchange. He applies for shares in new companies and expects to sell them at a premium, if he gets an allotment.
- ❖ He selects those companies whose shares are in more demand and are likely to carry a premium.
- ❖ He sells the shares before being called to pay the allotment money. He is also called a premium hunter.

Lame Duck:

- ✓ When a bear finds it difficult to fulfill his commitment, he is said to be struggling like a lame duck.
- ✓ A bear speculator contracts to sell securities at a later date. On the appointed time he is not able to get the securities as the holders are not willing to part with them.
- ✓ In such situations, he feels concerned. Moreover, the buyer is not willing to carry over the transactions.

4. Explain National Stock Market System. (NSMS)

National stock market system was advocated by the - High 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:

1. National Stock Exchange of India Limited (NSE)
2. Stock Holding Corporation of India Limited (SHCIL)
3. National Clearing and Depository System (NCDS)
4. Securities Trading Corporation of India (STCI)
5. National Securities Depositary Limited (NSDL)

5. Explain National Stock Exchange. (NSE)

- ❖ NSE was incorporated in November, 1992. It is a country wide, 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.
- ❖ Through computer network, member‘s orders for buying and selling within prescribed price are matched by central computer with each other and instantly communicate to the trading member.
- ❖ 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. It has revolutionised stock trading in India.

III. Long Answer Questions:

1. Explain the functions of Stock Exchange. (Any 5)

1. Ready and Continuous Market

Stock Exchange is, in fact, a market for existing securities. If an investor wants to sell his securities, he can easily and quickly dispose them off on a stock exchange.

2. Protection to Investors

All dealings in a stock exchange are in accordance with well-defined rules and regulations. For example, brokers cannot charge higher rate of commission for their services. Any malpractice will be severely punished.

3. Aid to Capital Formation

Stock exchanges thus ensure a steady flow of capital into industry and assists industrial development.

4. Correct Evaluation of Securities

The prices at which securities are bought and sold are recorded and made public. These prices are called "market quotations".

5. Facilities for Speculation

Speculation is an integral part of stock exchange operations. As a result of speculation, demand for and supply of securities are equalized. Similarly, price movements are rendered smoothly.

6. Clearing House of Business Information

stock exchange publish every year books detailing the financial position of companies. Thus, it gives vital information to the investing public for deciding on investment.

2. Explain the features of Stock Exchange. (Any 5)

1. Market for Securities

Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.

2. Deals in Second Hand Securities

It deals with shares, debentures bonds and such securities already issued by the companies. In short, it deals with existing or second hand securities and hence it is called secondary market.

3. Association of Persons

A stock exchange is an association of persons or body of individuals which may be registered or unregistered.

4. Recognition from Central Government

Stock exchange is an organised market. It requires recognition from the Central Government.

5. Working as per Rules

Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as SEBI Guidelines. No deviation from the rules and guidelines is allowed in any case.

6. Regulates Trade in Securities

Stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilities for trade in securities to its members and brokers who trade in securities.

3. Explain the Benefits of Stock Exchange.

A. Benefits to the Community

i. Economic Development

It accelerates the economic development by ensuring steady flow of savings into productive purposes.

ii. Fund Raising Platform

It enables the well-managed, profit-making companies to raise limitless funds by fresh issue of shares from time to time.

iii. Capital Formation

It encourages capital formation.

iv. Fund Raiser for Government

It enables Government to raise funds for undertaking projects through sale of securities on the stock exchange. Thus stock exchange serves as a platform for raising public debt.

B. Benefits to the Company

i. Enhances Goodwill or Reputation

Companies whose shares are quoted on a stock exchange enjoy greater goodwill and credit standing.

ii. Wide Market

There is a wide and ready market for such securities.

iii. Raises huge funds

Stock Exchange can raise huge funds easily by issue of shares and debentures.

iv. Increases bargaining strength

Companies whose shares rise in the stock exchange command higher bargaining power in the event of further expansion, merger or amalgamation.

C. Benefits to Investors

i. Liquidity

Stock exchange helps an investors to convert his shares into cash quickly and thus increases the liquidity of his investments.

ii. Investor protection

The stock exchange safeguards, investor's interest and ensures fair dealing by strictly enforcing its rules and regulations.

iii. 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.

iv. Mechanism to trade security

Stock Exchange provides a mechanism by which purchase and sale of listed securities take place in a matter of few minutes.

4. Distinguish between Stock Exchange and Commodity Exchange.

SL.NO	FEATURE	STOCK EXCHANGE	COMMODITY EXCHANGE
1	Meaning	Stock Exchange (also called Stock Market or Share Market) is one important constituent of capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security.	A commodity exchange is an exchange where commodities are traded. Tradable commodities are ❖ Metals (e.g. gold, silver,copper) ❖ Energy (e.g. crude oil, natural gas) ❖ Agricultural (e.g. rice, wheat, cocoa) ❖ Livestock and meat(e.g. live cattle, lean hog)
2	Function	Providing easy marketability	Offering hedging or price insurance services and liquidity to securities.
3	object	Object is facilitating capital formation and making best use of capital resources	Object is facilitating goods flow through risk reduction
4	Participants	Investors and Speculators	Producers, dealers, traders and a body of speculators.
5	Articles Traded	Industrial securities such as stocks and bonds and government securities.	Only durable, graded and goods having large volume of trade, price uncertainty and uncontrolled supply
6	Period of dealings	Cash, ready delivery and dealings for account for a fortnight	Instant cash dealings and a settlement period of 2 or 3 months for Future Market dealings

5. Explain Lombard Street and Wall Street.

Lombard Street:

- Lombard Street, London, is a street notable for its connections with the City of London's merchant, banking and insurance industries, stretching back to medieval times.
- 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.
- Its overall length is 260 meters It has oft en been compared with Wall Street in New York City

Wall Street:

- Wall Street is a street in lower Manhattan that is the original home of the New York Stock Exchange and the historic headquarters of the largest U.S. brokerages and investment banks.
- 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.
- Today, brokerages are geographically diverse, allowing investor's free access to the same information available to Wall Street's tycoons.

Chapter 8: SECURITIES EXCHANGE BOARD OF INDIA(SEBI)

I. Very Short Answer Questions:

1. Write a short notes on SEBI.

Securities and exchange board of India(SEBI) is an apex body that maintains and regulates our capital market. It was established in 1988 by Indian government but got the statutory powers in 1992.

2. Write any two objectives of SEBI.

1. Regulation of Stock Exchanges

The first objective of SEBI is to regulate stock exchanges so that efficient services may be provided to all the parties operating there.

2. Protection to the Investors

The capital market is meaningless in the absence of the investors. Therefore, it is important to protect the interests of the investors.

3. What is Demat account?

- A demat account holds all the shares that are purchased in electronic or dematerialized form.
- Like the bank account, a demat account holds the certificates of financial instruments like shares, bonds, government securities, mutual funds and exchange traded funds (ETFs).

4. Mention the headquarters of SEBI.

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, Kolkata, Chennai and Ahmedabad respectively.

5. What are the various ID proofs?

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, statutory or regulatory authorities, etc..

II. Short Answer Questions:

1. What is meant by Dematerialization?

Dematerialization is the process by which physical share certificates of an investor are taken back by the company/registrar and destroyed. Then an equivalent number of securities in the electronic form are credited to the investors account with his Depository Participant.

2. What are the documents required for a Demat account?

You 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, but originals are also required for verification.

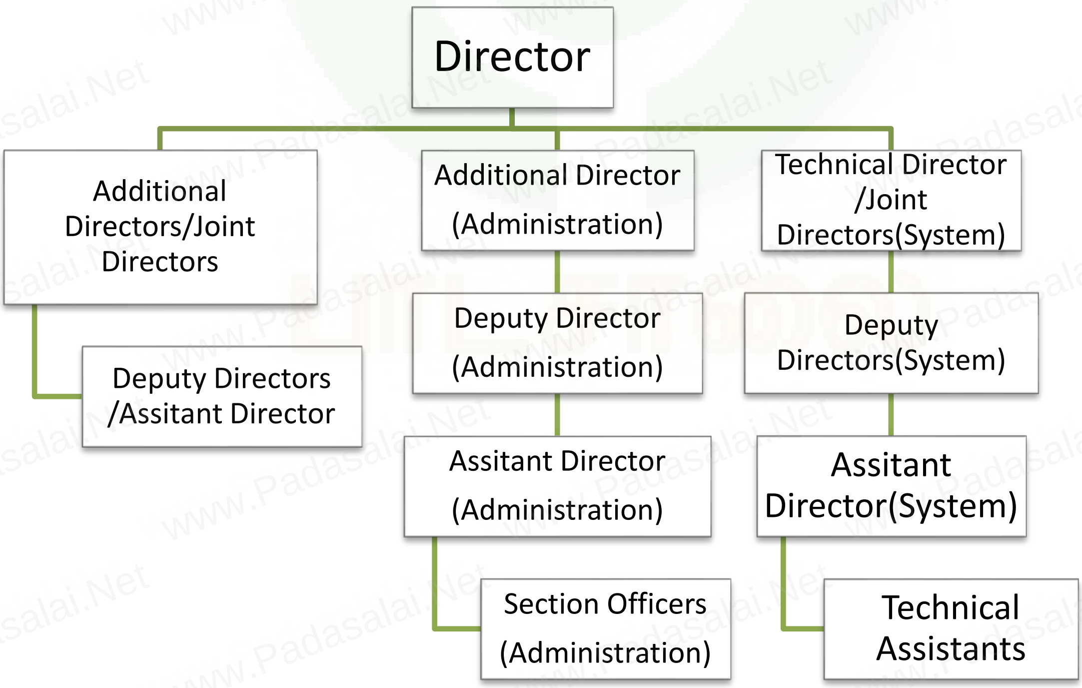
3. What is the power of SEBI under Securities Contract Act?

1. Powers Relating to Stock Exchanges &Intermediaries
2. Power to Impose Monetary Penalties
3. Power to Initiate Actions in FunctionsAssigned
4. Power to Regulate Insider Trading
5. Powers under Securities Contracts Act
6. Power to Regulate Business of Stock Exchanges

4. What is meant by Insiders trading?

- Insider trading means the buying and 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.
- This affects the interests of the general investors and is essential to check this tendency. Many steps have been taken to check insider trading through the medium of the SEBI.

5. Draw the organization structure of SEBI.



III. Long Answer Questions:

1. What are the functions of SEBI?

a) Safeguarding the interests of investors by means of adequate education and guidance.
b) Regulating and controlling the business on stock markets.
c) Barring insider trading in securities.
d) Prohibiting deceptive and unfair methods used by financial intermediaries operating in securities markets.
e) Registering and controlling the functioning of stock brokers, sub-brokers, share transfer agents, bankers etc
f) Registering and controlling the functioning of stock brokers, sub-brokers, share transfer agents, bankers
g) SEBI regulates mergers and acquisitions as a way to protect the interest of investors.
h) Registering and controlling the functioning of collective investment schemes such as mutual funds.
i) Promoting self-regulatory organization of intermediaries. It has extensive legal powers.
j) Carrying out steps in order to develop the capital markets by having an accommodating approach.
k) Provide appropriate training to financial intermediaries.
l) Levying fee or any other type of charges to carry out the purpose of the Act
m) Performing functions that may be assigned to it by the Central Government of India.

2. Explain the powers of SEBI.

1. Powers Relating to Stock Exchanges &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.

2. 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. It can even impose suspension of their registration for a short period.

3. 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.

4. Power to Regulate Insider Trading

SEBI has power to regulate insider trading or can regulate the functions of merchant bankers.

5. Powers under Securities Contracts Act

For effective regulation of stock exchange, the Ministry of Finance issued a Notification on 13 September, 1994 delegating several of its powers under the Securities Contracts (Regulations) Act to SEBI. SEBI is also empowered by the Finance Ministry to nominate three members on the Governing Body of every stock exchange.

6. 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?

i. The risks pertaining to physical certificates like loss, theft, forgery and damage are eliminated completely with a DEMAT 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 provide 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.However, there is limit on the number of transactions done using physical securities.
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.

Chapter 9: FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

I. Very Short Answer Questions:

1. Give the meaning of Human Resource.

Not all human beings are considered to be human resources but only those individuals who acquired the required skill sets, talents, knowledge, competencies and capabilities in the accomplishment of both individual and organisational objectives.

2. What is Human Resource Management ?

Human Resource Management is a function of management concerned with hiring, motivating and maintaining people in an organisation. It focuses on people in an organisation.

3. State two features of HRM.

i. Universally relevant :

Human Resource Management has universal relevance. The approach and style varies depending the nature of organisation structure and is applicable at all levels.

ii. Goal oriented :

The accomplishment of organisational goals is made possible through best utilisation of human resource in an organisation.

4. Mention two characteristics of Human Resource.

- ✓ Human resource is the only factor of production that lives
- ✓ Human resource created all other resources
- ✓ Human resource exhibits innovation and creativity

5. List the functions of HRM

I. Managerial function - Planning, Organising, Directing, Controlling.

II. Operative function – Procurement, Development, Compensation, Retention, Integration, Maintenance.

II. Short Answer Questions:

1. Define the term Human Resource Management.

According to Dale Yoder Human Resource Management as “the effective process of planning and directing the application, development and utilisation of human resources in employment”.

2. What are the features of Human resources ?

- ➢ Human resource is the only factor of production that lives
- ➢ Human resource created all other resources
- ➢ It is only the labour of employees that is hired and not the employee himself
- ➢ Human resource exhibits innovation and creativity
- ➢ Human resource alone can think, act, analyse and interpret

3. Give two points of differences between HR and HRM.

- ✓ HR is Human Resources, these are the people who make up the workforce of an organisation.
  HRM is the art of management which deals with recruiting,hiring,deploying and most importantly taking care of the human resources of the organisation.
- ✓ In an organisation the human resource are the employees who are inevitable for the survival and success of the enterprise.
  In short, it is managing people of different levels for the accomplishment of the organisational goals

4. What is the importance of Human resource?

- ✓ It is only through human resource all other resources are effectively used
- ✓ The sustainable growth of an organisation depends on the important resource human resource
- ✓ Industrial relations depend on human resource
- ✓ Human relations is possible only through human resource
- ✓ Human resource manages all other factors of production

5. State the functions of Human Resource Management.

I. Managerial function - Planning, Organising, Directing, Controlling.

II. Operative function – Procurement, Development, Compensation, Retention, Integration, Maintenance.

III. Long Answer Questions:

1. Explain the unique features of Human Resource.

- ➢ Human resource is the only factor of production that lives
- ➢ Human resource created all other resources
- ➢ It is only the labour of employees that is hired and not the employee himself
- ➢ Human resource exhibits innovation and creativity
- ➢ Human resource alone can think, act, analyse and interpret
- ➢ Human resources are emotional beings
- ➢ Human resources can be motivated either financially or non financially
- ➢ The behaviour of human resources are unpredictable
- ➢ Over years human resources gains value and appreciates
- ➢ Human resources are movable
- ➢ Human resource can work as a team

2. Describe the significance of Human Resource Management.

i. To identify manpower needs :

Determination of manpower needs in an organisation is very important as it is a form of investment. The number of men required are to be identified accurately to optimise the cost.

ii. To incorporate change :

Change is constant in any organisation and this change has to be introduced in such a way that the human resource management acts as an agent to make the change effective.

iii. To ensure the correct requirement of manpower:

At any time the organisation should not suffer from shortage or surplus manpower which is made possible through human resource management.

iv. To select right man for right job:

Human resource management ensures the right talent available for the right job, so that no employee is either under qualified or over qualified.

v. To update the skill and knowledge:

Managing human resource plays a significant role in the process of employee skill and knowledge enhancement to enable the employees to remain up to date through training and development programmes.

vi. To appraise the performance of employees:

Periodical appraisal of performance of employees through human resource management activities boosts up good performers and motivates slow performers. It helps the workforce to identify their level of performance.

vii. To improve competitive advantage:

Organisations with capable and competent employees can truly gain competitive advantage in the globalised market. Higher the level of good performers greater the possibility of fast paced growth of the enterprise.

viii. To provide incentives and bonus to best performers:

It is the role of human resource management to recognise the best performers and to provide them with bonus and incentives as a form of appreciation for their work.

3. Elaborate on the Managerial functions of Human Resource Management.

i. Planning :

Planning is deciding in advance what to do, how to do and who is to do it. It bridges the gap between where we are and where we want to go. It helps in the systematic operation of business.

ii. Organising:

It includes division of work among employees by assigning each employee their duties, delegation of authority as required and creation of accountability to make employees responsible.

iii. Directing:

It involves issue of orders and instructions along with supervision, guidance and motivation to get the best out of employees. This reduces waste of time energy and money and early attainment of organisational objectives.

iv. Controlling:

It is comparing the actuals with the standards and to check whether activities are going on as per plan and rectify deviations.

4. Differentiate HR from HRM.

BASIS FOR COMPARISON	HRM	HR
Meaning	Human Resource Management refers to the application of principles of management to manage the people working in the organization	In an organisation the human resource are the employees who are inevitable for the survival and success of the enterprise.
What is it?	In order to achieve the personal and organisational objectives human resources are to be trained up and managed	Human resource is the only factor of production that lives
Function	The sustainable growth of an organisation depends on the important resource human resource	Its concerned with hiring, motivating and maintaining people in an organisation. It focuses on people in an organisation.
Objective	To improve the performance of the employees	Human resource exhibits innovation and creativity
Characteristics	Human resource management ensures the right talent available for the right job.	Human resources can be motivated either financially or non financially

5. Discuss the Operating functions HRM.

i. Procurement

Acquisition deals with job analysis, human resource planning, recruitment, selection, placement, transfer and promotion.

ii. Development

Development includes performance appraisal, training, executive development, career planning and development, organisational development

iii. Compensation

It deals with job evaluation, wage and salary administration, incentives, bonus, fringe benefits and social security schemes

iv. Retention

This is made possible through health and safety, welfare, social security, job satisfaction and quality of work life

v. Integration

It is concerned with the those activities that aim to bring about reconciliation between personal interest and organisational interest

vi. Maintenance

This encourages employees to work with job satisfaction, reducing labour turnover, accounting for human resource and carrying out audit and research.

Chapter 10: RECRUITMENT METHODS

I. Very Short Answer Questions:

1. Give the meaning of Recruitment.

Recruitment is the process of finding suitable candidates for the various posts in an organisation. It is a process of attracting potential people to apply for a job in an organisation.

2. What is promotion?

It's based on seniority and merits of the employees they are given opportunity to move up in the organisational hierarchy

3. State two benefits of internal source of recruitment.

- Reduce time to hire
- Cost less
- Continuity of operations
- Increased morale and retention

4. Mention any two features of campus recruitment.

- ✓ We can identify new talents
- ✓ It's a costless method of recruitment
- ✓ We can conduct interview for more number of candidates and select best one

5. List the benefits of external source of recruitment.

- ✓ External recruitment helps you to assess a pool of best or talented employees for the job you need to fill.
- ✓ External recruitment provides an opportunity for a fresh outlook on the industry that a company may need to stay competitive.

II. Short Answer Questions:

1. Define the term Recruitment.

According to Edwin B. Flippo, "It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organisation."

2. What are the features of internal source of recruitment?

- ✓ Increased morale and retention. Other employees see there is room for advancement and reward for a job well done.
- ✓ Continuity of operations. Chances are that an internal employee can transition into the new role with minimal downtime.
- ✓ Less paperwork.

3. Give two points of differences between advertisement and unsolicited application.

i. Advertisements

i. The employer can advertise in dailies, journals, magazines etc. about the vacancies in the organisation specifying the nature of work, nature of vacancy, qualification and experience required, salary offered, mode of applying and the time limit within which the candidate has to apply.

ii. Its very expensive method of recruitment

ii. Unsolicited applicants

i.These are the applications of job seekers who voluntarily apply for the vacancies not yet notified by the organisations.

ii.Its not a expensive method of recruitment.

4. What is the importance of job portals?

- ✓ Using internet job portals organisations can screen for the prospective candidates and fill up their vacancies
- ✓ It's bridging the gap between the recruiters and the job seekers.
- ✓ Job Portals help to reach out to a wider audience.
- ✓ Job search portals make job searching time-efficient, easy and convenient.

5. State the steps in Recruitment process

i. Planning recruitment
ii. Determining vacancies
iii. Identifying the sources
iv. Drafting information for advertisement
v. Selecting the suitable mode of advertisement
vi. Facilitating selection process
vii. Evaluation and control

III. Long Answer Questions:

1. Explain the different methods of recruitment.

__**Internal Sources:**__

1. Transfer-transfer of employee from one department with surplus staff to that of another with deficit staff.
2. **Upgrading**-Performance appraisal helps in the process of moving employees from a lower position to a higher position
3. **Promotion**-Based on seniority and merits of the employees they are given opportunity to move up
4. **Demotion**-Movement of employee from a higher position to a lower position because of poor performance
5. Recommendation by existing Employees-A family member, relative or friend of an existing employee can be recruited and placed
6. Job rotation-One single employee managing to learn how to perform in more than one job on rotation
7. Retention – The retiring employees can be used to meet the requirement after superannuation.
8. Retired employees- The employees who have already retired can be called to fill the vacancy.
9. Dependants- The legal heir or the dependent employee may be given a chance to replace the deceased.
10. Previous applicants- whose name appears in the data base but not selected at that point of time can be utilized.
11. Acquisitions and Mergers External Sources - organisation acquires another business unit or merging with another establishment.

__**External Sources:**__

i. Direct:

1. Advertisements- The employer can advertise in dailies, journals, magazines etc. about the vacancies in the organisation
2. Unsolicited applicants- job seekers who voluntarily apply for the vacancies not yet notified by the organisations.
3. Walk ins- Walk-in applicants with suitable qualification and requirement can be another source of requirement.
4. Campus Recruitment- The organisations visit the educational institutions to identify and recruit suitable candidates
5. Recruitment at Factory gate- casual or temporary unskilled employees are recruited by this way, paid on hourly or daily basis
6. Rival firms- efficient employees of rival companies are drawn to the organisations by higher pay and benefits
7. E Recruitment - – The organisations which carry out recruitment online methods is said to follow e recruitment

ii. Indirect:

1. Employee referral- The existing employees of the organisation may recommend some of their relatives

2. Government/ Public Employment Exchanges- These are exchanges established by Government which facilitates recruitment throughout the country.

3. Private Employment Agencies- These are similar to Public employment exchanges except that the ownership is the hands of Private parties.

4. Employment Consultancies- These types of firms facilitate recruitment on behalf of client companies at cost

5. Professional Associations- Organisations seeking applicants of high calibre and repute with technical knowledge approach professional associations to identify the right person.

6. Deputation- A person who is already an employee of an organisation can be deputed for a specific job for a specified period as a short term solution.

7. Word of mouth- The information relating to job seekers is collected through people of repute who pass on the message about the vacancy to their known people.

8. Labour Contractors- Organisations recruit unskilled and manual labourers through these contractors.

9. Job Portals- Using internet job portals organisations can screen for the prospective candidates and fill up their vacancies

2. Describe the significance of External source of recruitment.

- When an organization recruits externally, it opens the organization up to a larger pool of applicants, which increases its chance of finding the right person for the job.
- External recruitment provides an opportunity for a fresh outlook on the industry that a company may need to stay competitive.
- Bringing in fresh talent from the outside can help motivate the current employees to produce and achieve more in hopes of obtaining the next promotional opportunity
- Looking outside the organization also allows a company to target the key players that may make its competition successful.
- Hiring an external candidate also opens up many opportunities to find experienced and highly-qualified and skilled candidates who will help a company meet its diversity requirements.

3. Elaborate on the factors affecting recruitment.

I. INTERNAL FACTORS:

1. Recruitment Policy

The recruitment policy of the organization i.e. recruiting from internal sources and external also affect the recruitment process.

2. Size of the Organization

The size of the organization affects the recruitment process. If the organization is planning to increase its operations and expand its business, it will think of hiring more personnel, which will handle its operations.

3. Cost involved in recruitment

Recruitment process also counts the cost to the employer, that’s why organizations try to employ/outsource the source of recruitment which will be cost effective to the organization for each candidate.

4. Growth and Expansion

Organization will utilize or consider utilizing more work force in the event that it is growing its operations.

II. EXTERNAL FACTORS

1. Supply and Demand:

The availability of manpower both within and outside the organization is an essential factor in the recruitment process

2. Labour Market

Employment conditions where the organization is located will affected by the recruiting efforts of the organization.

3. Political-Social- Legal Environment

Different government controls forbidding separation in contracting and work have coordinate effect on enlistment practices.

4. Unemployment Rate

The Element that influence the availability of applicants is the economy growth rate

5. Competitors

The recruitment policies and procedure an of the competitors also affect the recruitment function of the organizations.

4. Differentiate Recruitment and Selection.

SL.NO	Basis of Comparison	Recruitment	Selection
1	Meaning	Recruitment is an activity of searching candidates and encouraging them to apply for it	Selection refers to the process of selecting the suitable candidates and offering them job.
2	Approach	Approach under recruitment is positive one.	Approach under selection is negative one
3	Objective	Inviting large number of candidates to apply for the vacant post	Picking up the most suitable candidates and eliminating the rest
4	Sequence	First	Second
5	Method	It is an economical method	It is an expensive method
6	Process	Recruitment process is very simple	Selection process is very complex and complicated

5. Discuss the importance of Recruitment.

- ✓ Attract and encourage a good number of candidates to apply for the organizational vacancies.
- ✓ Determine present and future organizational requirement taking into consideration of personnel planning and job analysis activities.
- ✓ Links the employers with the potential employees.
- ✓ Increase potential candidate's pool at less cost.
- ✓ Increases success rate of selection process by reducing the number of under qualified or overqualified job applicants.
- ✓ Reduce the probability of leaving the organization only after a short period of time, once recruited and selected.
- ✓ Meet the organizations' legal and social obligations maintaining its workforce composition.
- ✓ Determine the appropriateness of the candidates by identifying and preparing potential job applicants.
- ✓ Increase organizational and individual effectiveness regarding application of various recruitment techniques and taping different sources of recruitment concerned.