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Total number of printed pages – 2

MBA
MGT 205

Second Semester Regular Examination – 2015
FINANCIAL MARKETS AND INSTITUTIONS

BRANCH : MBAR

QUESTION CODE : J 408

Full Marks – 70

Time : 3 Hours

Answer Question No. 1 which is compulsory and any five from the rest.
The figures in the right-hand margin indicate marks.

1. Answer the following questions : 2×10
- (a) What major economic functions financial markets provide ?
 - (b) How is interbank interest rate determined ?
 - (c) Suppose that long-term interest rates are expected to fall in future. How is this to influence the supply of commercial paper ?
 - (d) Why Repo and Reverse Repo markets as well as number of their participants have grown up tremendously ?
 - (e) Assume that the Government makes a major sale of bonds to the private sector. What would be its likely effect on liquidity of the banking system ?
 - (f) By which financial factors the external financing through equity instruments is determined ?
 - (g) Why IPO is often under priced ?
 - (h) Why the Government of India decided to permit setting up of banks in the private sector in 1994 ?
 - (i) Why margin is insisted upon incase of loans ?
 - (j) What do you mean by risk transfer and risk retention ?

P.T.O.

2. What role does a financial system play in an economy ? What is the structure of a financial system? How does the structure of financial systems differ across countries worldwide ? 10
 3. "With financial intermediation, net lenders can earn a higher return on their surplus funds and net borrowers can acquire funds at a lower cost". Explain how this seemingly contradictory statement can be true ? 10
 4. "Organizational and functional differences notwithstanding, primary and secondary segments of the securities market are closely related". Do you agree ? Give reasons. 10
 5. Since the rights issue allows the ordinary shareholders to purchase the shares at a price much lower than the current market price, why does shareholders' wealth not increase ? Illustrate your answer. 10
 6. What do you understand by Money market ? Discuss the composition and functions of a money market. Is Indian money market an underdeveloped money market ? 10
 7. "Commercial banks are special among the intermediaries for the development of the economy". Justify. 10
 8. "Good faith lies at the root of the insurance contract". Discuss the principle with reference to life and non-life insurance. Point out the circumstances when the policy holder need not disclose certain facts. 10
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