ST. PHILOMENA'S COLLEGE (AUTONOMOUS), MYSORE			
PG DEPARTMENT OF COMMERCE			
QUESTION BANK (Revised Curriculum 2018-20)			
FIRST YEAR- SECOND SEMESTER (2019-20 Batch)			
COURSE TITLE (PAPER TITLE): FINANCIAL MARKETS AND SERVICES QP Code: 53101			
UNIT	**Sl. No**	**QUESTIONS**	**MARKS**
1	1	Define the term ordinary shares. Briefly explain their distinctive features.	5
1	2	State the objectives of SEBI.	5
1	3	Write a short note on GDRs.	5
1	4	Write a short note on SEBI regulations of financial markets.	5
1	5	Define GD Rs. Enumerate the uses of GDRs.	5
1	6	Define gilt-edged securities.	5
1	7	Define 'Capital Market. What are capital market constituents?	5
1	8	Define ETFs with features and advantages to the investing community.	5
1	9	Write a note on financial instruments.	5
1	10	Define P-Notes. Who issues them? What types of investors are interested in P-Notes? Why?	5
1	11	Write a Note on ADRs and GDRs.	5
2	12	Define the interest rate swap (IRS). What factors motivate the parties to enter into an IRS deal?	5
2	13	Define Derivatives. Explain the various types of Derivatives.	5
2	14	Write a note on the types of option contracts.	5
2	15	What are the underlying assets for a derivative instrument?	5
2	16	Define swaps. What are their main features?	5
2	17	Define forward contract.	5
2	18	Define currency swap s and interest rate Swap with examples	5
2	19	Define financial swap.	5
3	20	Define the term 'Private Placement.	5
3	21	Mention the types of Merchant Banking	5
3	22	Define Venture Capital	5
3	23	Mention the stages of financing	5
3	24	Define credit rating and explain the need of credit rating in the financial institutions.	5
4	25	Compare lease financing and hire purchase financing	5
1	26	Mention the features of a Capital Market.	5
4	27	Explain the advantages and limitations of Hire purchase.	5
1	28	Explain briefly the functions of financial markets.	5
1	29	Briefly explain the significance of money market.	5
1	30	Briefly explain any five money market instruments.	5

2	31	Distinguish between exotic and exchange traded options.	5
2	32	Briefly explain the types of Option Contract.	5
2	33	Briefly discuss the trading mechanism of the forward contract.	5
2	34	Briefly discuss the advantages and disadvantages of forward contract.	5
2	35	Briefly explain the types of swaps.	5
2	36	Briefly explain the concept of Future contract	5
3	37	Briefly explain the concept of merchant banking.	5
3	38	Elucidate the factors influencing on credit rating.	5
3	39	State the need for setting up venture capital funds in India.	5
3	40	Distinguish Between commercial banking and merchant banking.	5
3	41	Briefly explain the concept of financial services.	5
3	42	Mention and explain briefly the factors affecting the credit rating.	5
3	43	Mention and briefly explain any one of the credit rating agencies.	5
4	44	Distinguish between operating lease and financial lease.	5
4	45	Define Hire Purchase.	5
4	46	Briefly explain the rights of hirer	5
4	47	Explain the advantages and limitations of leasing.	5
1	48	Briefly explain the economic functions of financial markets.	10
1	49	Explain the structure of Indian Finance System.	10
1	50	Explain the historical background of the Indian Capital market.	10
1	51	Discuss the role of RBI in promoting and regulating Indian financial markets.	10
1	52	State the main recommendations of Narasimhan's Committee regarding development of Indian Capital Market.	10
1	53	Explain the process of issuance of ADR and GDR.	10
1	54	Explain the sequential steps involved in stock trading.	10
1	55	Explain any two financial sector reforms	10
2	56	Calculate the value of a European call option using the Black-Scholes model Exercise price = 150, Stock price- ` 120, Time to Expiration = 10 months Continuously compounded risk-free rate of return= 35 % p.a. Variance of rate of return is 0.45.	10
2	57	By selling wheat futures the trader is hedging of a long cash position of 5,000 tons of rice Assume that for `100 change in wheat futures price, the Re is 80. Change in rice cash prices. calculate the number of futures contracts to sell and Hedge ratio	10
2	58	Calculate the value of a European call option using the Black-Scholes model • Exercise price = 100, • Stock price- ` 90, • Time to Expiration = 8 months	10

		• Continuously compounded risk-free rate of return= 25 % pea • Variance of rate of return is 0.35.	
2	59	An investor holds a forward contract on 500 shares which has still 4 months to mature the strike price is Rs. 300 per share. Each share is currently selling in the market for Rs. 440 each. The risk-free rate if interest (continuously compounded) is 10% p.a. Find the value of forward contract.	10
2	60	An investor holds a forward contract on 1000 shares which has still 4 months to mature the strike price is Rs. 600 per share. Each share is currently selling in the market for Rs. 750 each. The risk-free rate if interest (continuously compounded) is 10% p.a. Find the value of forward contract.	10
2	61	Calculate the value of a European call option using the Black-Scholes model • Exercise price = 65, • Stock price- ` 60 • Time to Expiration = 6 months • Continuously compounded risk-free rate of return= 15 % p.a • Variance of rate of return is 0.25	10
2	62	Calculate the value of a European call option using the Black-Scholes model • Exercise price = ` 55, • Stock price- ` 50, • Time to Expiration = 6 months • Continuously compounded risk-free rate of return= 12 % p.a. • Variance of rate of return is 0.15	10
2	63	An investor holds a forward contract on 2000shares which has still 4 months to mature the strike price is Rs. 700 per share. Each share is currently selling in the market for Rs. 950 each. The risk-free rate if interest (continuously compounded) is 15% p.a. Find the value of forward contract.	10
2	64	By selling wheat futures the trader is hedging of a long cash position of 8,000 tons of rice Assume that for `100 change in wheat futures price, the Re is 100. change in rice cash prices. calculate the number of futures contracts to sell and Hedge ratio	10
2	65	Compare and contrast between forwards and future contracts.	10
2	66	Discuss the role and functions of derivatives market.	10
2	67	Mention the features of futures contract with the procedures for issuing depositary receipts.	10
2	68	Describe the Mechanics of buying and selling futures.	10
2	69	Explain the role of derivatives in managing the risk.	10
2	70	Describe the option Market in India.	10
2	71	Explain the criticism of Derivatives.	10
3	72	Explain the different types of venture capitalists.	10
3	73	Explain the responsibilities of Merchant Bankers in Issue Management	10
3	74	Explain any two credit rating agencies with an example	10
3	75	Explain the growth of Financial Services of India	10

3	76	Explain the regulation of Merchant Banking in India	10
4	77	Under hire purchase deal structures by the hypothetical Finance Ltd for the Hypothetical Industries Ltd (HIL), the flat rate of interest is 35%. The HIL is required to make the cash down payment of 45% and the repayment of the loan is to be made in 36 equated monthly installments. On the assumption of Payment of installment in a. Advance b. Arrears c. Compute ERI/APR	10
4	78	Under hire purchase deal structures by the hypothetical Finance Ltd for the Hypothetical Industries Ltd (HIL), the flat rate of interest is 15%. The HIL is required to make the cash down payment of 25% and the repayment of the loan is to be made in 36 equated monthly installments. On the assumption of Payment of installment in a. Advance b. Arrears c. Compute ERI/APR	10
4	79	The Housing Loan Enterprises (HEL) under hire purchase agreement, the flat rate of interest is 20%. The HEL is required to make the cash down payment of 35% and the repayment of the loan is to be made in 50 equated monthly installments. On the assumption of Payment of installment in a. Advance b. Arrears c. Compute ERI/APR	10
4	80	Differentiate between leasing and hire purchase.	10
4	81	Explain the different types of leasing with suitable example.	10
4	82	Write a meaning and characteristics of hire purchase. Highlight the important clauses in a hire purchase agreement.	10
4	83	Following details pertain to a company manufacturing air bags required for the luxury cars. 1. Cost of equipment is Rs. 5, 00,000/- 2. Down Payment 25% of cost incurred. 3. The installments are paid at the end of each year. 4. Number of years is 4 years 5. Flat rate of interest 14% 6. Appropriate discount rate 18% 7. Annual lease rentals Rs 1, 00,000 with the lease period of 5 years 8. Tax at 50% 9. Depreciation to be charged is on straight line method 10. Salvage value Rs 40000 at the end of the year. The company is examining two finance alternative hire purchasing and leasing. You are required to give your own considering opinion about the choice of financing to be adopted by the firm. Also determine annual amount of interest under 3 methods namely • Effective Interest Rate of Method • Sum of years digit Method • Straight line Method	15

4	84	ABC Ltd has a plan to diversify. Towards this end, it decides to buy a certain machinery. The company can either buy the required machinery or have it on lease basis. • The machine can be purchased for Rs 1500000/-. It is expected to have a useful life of 5 years with salvage value of Rs 1, 00,000/- after the expiry of 5 years. The purchase can be financed by 20 percent loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year end lease rentals of Rs. 4, 50,000/- for 5 years. Advise the company, which option should be chosen. You may assume the following: • The machine will constitute a separate block for depreciation purpose. • The company follows WDV method of depreciation, the rate of depreciation being 25 percent. • Tax rate is 35 Percent and cost of capital is 20%. • Lease rents are to be paid at the end of the year. • Maintenance expenses estimated at Rs 3, 00,000/- per year are to be borne by the lessee.	15
4	85	XYZ Ltd. is the business of manufacturing steel utensils. The firm is planning to diversify and add a new line of products. The firm either can buy the required machinery or get it on lease. • The machine can be purchased for Rs 1500000/-. It is expected to have a useful life of 5 years with salvage value of Rs 1, 00,000/- after the expiry of 5 years. The purchase can be financed by 20 percent loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year end lease rentals of Rs. 4, 50,000/- for 5 years. Advise the company, which option should be chosen. For your exercise, you may assume the following: • The machine will constitute a separate block for depreciation purpose. The company follows WDV method of depreciation, the rate of depreciation being 25 percent. • Tax rate is 35% and cost of capital is 20%. • Lease rents are to be paid at the end of the year. • Maintenance expenses estimated at Rs 30000/- per year are to be borne by the lessee.	15
4	86	ABC Ltd has the investment plan amounting to 108 lacks. The tax relevant rate of depreciation of ABC ltd is 25 %. Its cost of Capital and cost of debt are 16% and 20% respectively and tax is 35%. It is examining financing alternative for its capital expenditure. A proposal from XYZ Ltd with the following salient features is under its active consideration a. **Hire Purchase plan-** the flat rate of interest charged by XYZ ltd is 16%. The repayment of the amount is to be made in 36 equated monthly installments in advance. The hirer/ hire purchaser is required to make a down payment of 20%. b. **Leasing Alternatives-**The lease rentals are payable at Rs 28000 per month in advance. The primary lease period can be assumed to be 5 years. •Assumed at sum of years digit method is used to allocate the total charge for credit under hire purchase plan. • The net salvage value of the equipment after 3 years can be assumed to be 33 lacks. Which alternative leasing and hire purchase should ABC Ltd use?	15

4	87	Following details pertain to a company manufacturing air bags required for the luxury cars. 1. Cost of equipments is Rs 8, 00,000/- 2. Down Payment 35% of cost incurred. 3. The installments are paid at the end of each year. 4. Number of years is 4 years 5. Flat rate of interest 16% 6. Appropriate discount rate 20% 7. Annual lease rentals are Rs 3, 00,000 with the lease period of 5 years 8. Tax at 50% 9. Depreciation to be charged is on straight line method 10. Salvage value Rs 50000 at the end of the year. The company is examining two finance alternative hire purchasing and leasing. You are required to give your own considering opinion about the choice of financing to be adopted by the firm. Also determine annual amount of interest under 3 methods namely • Effective Interest Rate of Method • Sum of years digit Method • Straight line Method	15
4	88	PQR Ltd. is the business of manufacturing steel utensils. The firm is planning to diversify and add a new line of products. The firm either can buy the required machinery or get it on lease. • The machine can be purchased for Rs 2500000/-. It is expected to have a useful life of 5 years with salvage value of Rs 2, 00,000/- after the expiry of 5 years. • The purchase can be financed by 20 percent loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year end lease rentals of Rs. 5, 50,000/- for 5 years. Advise the company, which option should be chosen. For your exercise, you may assume the following: • The machine will constitute a separate block for depreciation purpose. The company follows WDV method of depreciation, the rate of depreciation being 25 percent. • Tax rate is 35% and cost of capital is 20%. • Lease rents are to be paid at the end of the year. • Maintenance expenses estimated at Rs 40000/- per year are to be borne by the lessee.	15

Note: The attached question paper is to be taken as a model question paper and all the M.Com II semester Question papers will have the similar pattern.

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Q.P Code:53101

St. Philomena's College (Autonomous) Mysore
II Semester M.Com Examination : May - 2019
Subject: COMMERCE
Title: FINANCIAL MARKET SERVICES (HC)

Time: 3 Hours **Max Marks: 70**

PART –A

Answer any FIVE questions: **5×5=25**

1. Briefly explain the functions of financial system.
2. Write a note on financial instruments.
3. Explain the role of derivatives in managing the risk.
4. Give an account of merchant banking..
5. Explain the different types of venture capitalists.
6. Differentiate between leasing and hire purchase.
7. A investor holds a forward contract on 500 shares which has still 4 months to mature. The strike price is ₹ 300 per share. Each share is currently selling in the market for ₹ 440 each. The risk-free rate of interest (continuously compounded) is 10% p.a. find the value of forward contract.
8. What do you mean by M2M? Explain the M2M procedure.

PART –B

Answer any THREE questions : **3×10=30**

9. Discuss the formalities involved in listing of securities.
10. Compare and contrast between future and forward market.
11. Elucidate the factors influencing on credit rating.
12. An investor holds a call option on INFO Ltd's stock with a strike value of ₹ 880. The call price paid by him is ₹ 76 and the possible price range of underlying is ₹ 500 to ₹ 1,500. Time to maturity is 2 months from now. Show the pay-off profile from holding the call option on INFO's stock. What is the break-even-point?
13. Discuss the different types of leasing with suitable example.

PTO

PART–C

14. **Compulsory Question:** 1×15

Companies M and N have been offered the following rates per annum on a ₹ 20 million five year loan:

Company	Fixed Rate	Floating Rate
M	8.5%	MIBOR + 0.2%
N	9.5%	MIBOR + 0.6%

Company M requires a floating rate loan; company N requires fixed rate loan. Design a swap contract that will net a bank acting as intermediary 0.1% per annum and be equally attractive to both the companies.

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