

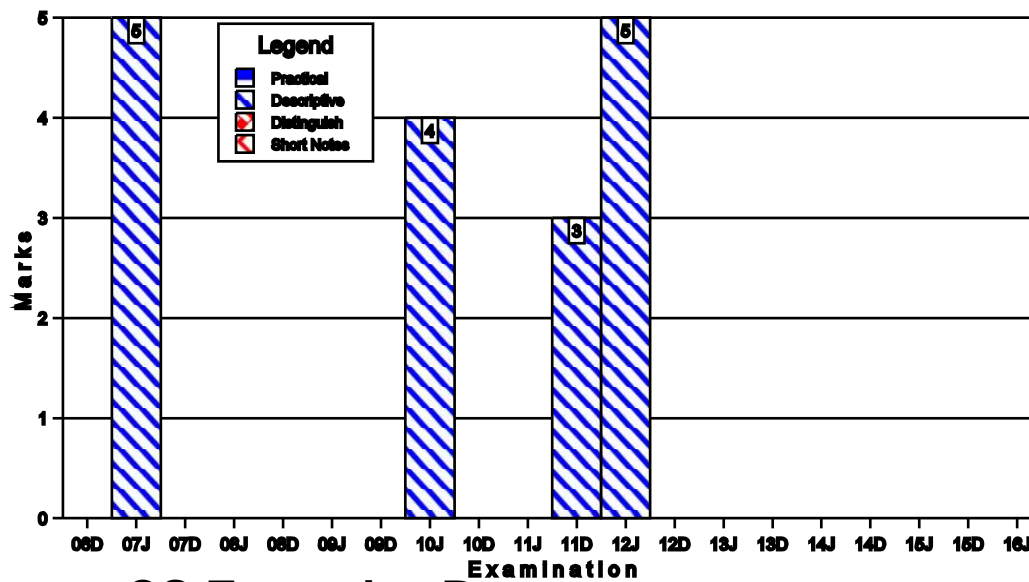
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Economic Framework of Capital Market

This Chapter Includes

- Introduction
- Constituents of Financial System
- Financial Assets
- Financial Intermediaries
- Financial Markets
- Classification of Financial Markets
- Capital Market
- Functions of Capital Market
- Role of Capital Market in Resource Allocation
- Capital Formation
- Stages of Capital Formation
- Role of Capital Market in Capital Formation

Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



CS Executive Programme (Module II)

DESCRIPTIVE QUESTIONS

2010 - June [3] (d) "Primary market is of great significance to the economy".
Comment. (4 marks)

Answer :

- Primary market provides channel for sale of new securities and mobilize resources for new projects as well as for existing projects with a view to expansion, modernization, diversification & upgradation.
- The Primary market is of great significance to the economy of a country. It is through the primary market that funds flow for productive purposes from investors to entrepreneurs.
- The latter use the funds for creating new products and rendering services to customers in India & abroad.
- The strength of the economy of a country is gauged by the activities of the stock exchanges.
- The primary market creates and offers the merchandise for the secondary market.

2011 - Dec [4] Comment briefly on the following statements :

- (i) "The securities market has two interdependent and inseparable segments." (3 marks)

Answer :

The Securities Market has two interdependent and inseparable segments, the new issues (primary) market and the stock (secondary) market.

The Primary market provides the channel for sale of new securities. The issuer of securities sells the securities in the primary market to raise funds for investment and / or to discharge some obligation.

The Secondary market deals in securities previously issued. The secondary market enables those who hold securities to adjust their holdings in response to changes in their assessment of risk and return. They also sell securities for cash to meet their liquidity needs.

2012 - June [3] (b) "Securities market enhances the pace of economic growth." Discuss. (5 marks)

Answer :

A well functioning Securities Market is conducive to sustained economic growth. The securities market fosters economic growth to the extent that it (a) augments the quantities of real savings and capital formation from any given level of national income, (b) increases net capital inflow from abroad, (c) raised the productivity of investment by improving allocation of investable funds , and (d) reduces the cost of capital.

The Securities Market provides a bridge between ultimate savers and ultimate investors and creates the opportunity to put the savings at the disposal of enterprising, thus promising to raise the total level of investment and growth.

CS Inter Gr. II

DESCRIPTIVE QUESTIONS

2007 - June [2] (a) “The financial markets have two major components — the money market and the capital market.” Discuss. (5 marks)

Answer:

Financial market have two major components: the money market and the capital market.

1. **Money Market:** The money market refers to the market where borrowers and lenders exchange short-term funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk maturities under one year and high marketability.
2. **Capital Market:** It is a market for financial investments that are direct or indirect claims to capital. It is wider than securities market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument. The capital market comprises the complex of institutions and the term funds are pooled and made available to business, Government and individuals. The capital market also encompasses the process by which securities already outstanding are transferred.

