BISMA
1st Internal Examination-2018
MBA III SEMESTER
SAPM (M-310)
Set-A

Time: 1.5 Hrs. M.M.:30

Q.1 Long Questions (Each carry equal marks) Attempt any 3

1. What is investment? Explain its relationship with savings.
2. Explain the different regulatory authorities for the financial system in India.
3. What is security market? Discuss its function and importance.

   CASE STUDY(Compulsory question)
4. Assume that stocks A1, A2, and A3 constitute the sample companies for the computation of an index. The base index is 100 and the base date price and current market prices are given below. Compute the current stock splits have not occurred, and no additional shares have been issued. Use the market value weighted method; price weighted method, and equal weight method:

Share	Outstanding Shares	Base Price	Current Price
A1	5,00,000	120	200
A2	8,00,000	150	900
A3	6,00,000	110	150

SOLUTIONS

Ans 1 An **investment** is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an **investment** is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

Saving is income not spent, or deferred consumption. In terms of personal finance, **saving** generally specifies low-risk preservation of money, as in a deposit account, versus investment, wherein risk is a lot higher; in **economics** more broadly, it refers to any income not used for immediate consumption. Savings and investment are generally not equal. This is firstly because saving and investment are made by two different classes of people. While investment is undertaken by entrepreneurial class of the society, saving is done by the general public. Secondly, saving and investment depend upon different factors and are made for different purposes and motives. Consumption + Saving = Consumption + Investment

$$C + S = C + I$$

$$\text{Saving} = \text{Investment}$$

Ex-post saving is equal to realized or ex-post investment, intended, planned or ex-ante saving and investment may differ; intended or ex-ante saving and investment have only a tendency to be equal and are equal only at the equilibrium level of income.

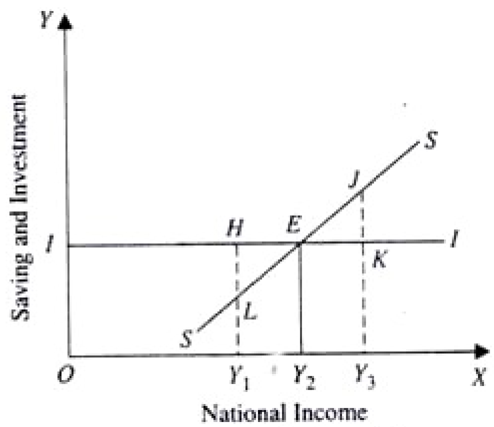

Fig. 8.5. *Equality between Saving and Investment in the ex-ante sense*

Ans 2.The Ministry of Finance (MOF), the Securities & Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) are the three regulatory authorities governing Indian capital markets.

Ministry of Finance (MOF)

The Department of Economic affairs directly manages the Capital Markets segment under the directions of MOF. This segment formulates the rules for the efficient growth of the Stock Market which includes derivatives, debt, and equity. It also formulates regulations for safeguarding the interest of the investors. This segment regulates the Indian Capital Markets through the following laws:

- Depositories Act, 1996
- Securities Contract (Regulation) Act, 1956
- Securities and Exchange Board of India Act, 1992

Reserve Bank of India (RBI)

The Reserve Bank of India Act, 1934 governs policies framed by the Reserve Bank of India. The functions of RBI in this regard are as follows:

- Implementation of Monetary and Credit policies
- Issuance of Currency Notes
- Government’s Banker
- Banking System Regulator
- Foreign Exchange through Foreign Exchange Management Act, 1999
- Managing payment & settlement system

Apart from the above functions, RBI is also actively involved in developing the financial market.

Securities & Exchange Board of India (SEBI)

The Securities & Exchange Board of India (SEBI) Act, 1992 regulates the functioning of SEBI. SEBI is the apex body governing the Indian stock exchanges. The primary functions of SEBI are as follows:

Protective Functions

I. It checks Price rigging
II. Prohibits insider trading
III. prohibits fraudulent and Unfair Trade Practices

Development Functions

I. SEBI promotes training of intermediaries of the securities market.
II. SEBI tries to promote activities of stock exchange by adopting a flexible and adaptable approach

Regulatory Functions

I. SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.

II. These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.

III. SEBI registers and regulates the working of stock brokers, sub-brokers, share-transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner

IV. SEBI registers and regulates the working of mutual funds etc.

Ans3 .Security market is a component of the wider financial market where securities can be bought and sold between subjects of the economy, on the basis of demand and supply. Mobilizes inactive savings.

Importance and functions of security market:

The security market mobilizes saving for economic development. The instruments which are used in security market have liquidity and they are easily available. Hence, people secure their saved property by purchasing financial investments. The interest rate is also attractive in those instruments. So people like to mobilize more savings.

Economic growth

For the economic growth or development of a country, saving and investment are prerequisites. Higher the saving and investment, higher the rate of return or rate of economic growth. Hence, financial market helps the efficient utilization of resources and economic growth.

Promotion of trade

The security market helps in promotion of trade. It increases internal as well as external trade by providing the means of exchange.

Channel savings to investments

Through security market a large amount of capital can be collected by selling the instruments like stock, bond etc. and the income earned from them can be used to pay debt. The investment on these securities provides interest and dividend. In the absence of security market, even those having adequate capital cannot use capital in productive sectors.

Promotes long term investments

The long term loan needed to the individuals, households, government and business can be obtained from the security market. The fund raised by this market can be invested in agriculture, industry, services etc.

Increases quality of investments

The security market mobilizes unproductive funds into productive sectors. The investors always try to invest in the areas yielding high rate of return. The security market assists in selecting appropriate opportunity to mobilize fund effectively.

Provides liquidity

Since there is liquidity and less risk of loss in financial instruments, the savers are stimulated to invest in stocks, bonds etc. The investors can receive cash promptly selling those securities into secondary market.

Attracts foreign capital

The capital or security market presents the clear picture of the economy. On account of this, foreign capital and foreign assistance are attracted towards a country.

Ans4. Market value weighted method

Share	Os shares	Base price	Base value	Current price	Current value
A1	5,00,000	120	6,00,00,000	200	10,00,00,000
A2	8,00,000	150	12,00,00,000	900	72,00,00,000
A3	6,00,000	110	6,60,00,000	150	9,00,00,000
TOTAL VALUE			24,60,00,000		91,00,00,000

910000000/246000000X100=370

2 .Price weighted method

SHARE	BASE PRICE	CURRENT PRICE
A1	120	200
A2	150	900
A3	110	150
TOTAL	380	1,250

1250/380X100=329

3.Equal weight method

SHARE	PERCENTAGE CHANGE IN SHARE	WEIGHT	WEIGHTED AVERAGE
A1	66.67	1/3	22.22
A2	500	1/3	166.67
A3	36.36	1/3	12.12
TOTAL			201.01

EQUAL WEIGHTED INDEX=100+201.01=301.01