

SEMESTER - V

PROGRAMME NAME: B.COM(H)

PAPER: FINANCIAL MARKETS, INSTITUTIONS AND FINANCIAL SERVICES

ASSIGNMENT

1. "Investing in securities through mutual fund is a better choice than direct investment".

Examine the statement.

2. What do you mean by leasing? Discuss the Various kinds of Leasing?

3. What are the shortcomings of Indian bill Market? Discuss various steps that have been taken to promote the bill market.

4. Define the term Factoring. And explain its Mechanism.

5. Define Financial Services? What are the various kinds of financial services provided by banks and financial institutions?

CLASS TEST

1"Leasing is Beneficial to both, the lessee as well as the lessor". Examine.

2. What are the functions performed by the factor? Also state the benefits of Factoring to different parties.

3. Consider the case of a developing economy with a recently privatized banking sector. Explain how a weakened banking sector (extremely low bank capital), rising foreign interest rates, and Asymmetric Information can contribute to the onset of both a currency and financial crisis. What features of a developing economy financial market make it more difficult for the country's central bank to protect their currency?

4. Difference between commercial and merchant banking.

5. What do you mean by Mutual Fund? What are the benefits and problems of Mutual Fund India?

MULTIPLE CHOICE QUESTIONS

1. What is the primary function of large, diversified brokerage firms in the money market?
 - a. To sell money market securities to the Federal Reserve for its open market operations
 - b. To buy money market securities from corporations that need liquidity
 - c. To make a market for money market securities by maintaining an inventory from which to buy or sell
 - d. To buy T-bills from the U. S. Treasury Department
2. If bad credit risks are those that most actively seek and receive loans from financial intermediaries, what problem does this cause the financial intermediaries to face?
 - a. Moral hazard
 - b. Adverse selection
 - c. Free-riding
 - d. Costly state verification
3. All financial intermediary institutions in the intermediation market
 - a. buy primary securities and sell secondary securities
 - b. borrow short and lend long
 - c. borrow in small denominations and lend in large
 - d. buy from brokers and dealers and sell to the public
4. What are Federal funds?
 - a. Treasury notes
 - b. Commercial bank deposits at the Federal Reserve
 - c. Federal Reserve assets
 - d. Vault cast of the Federal government
5. Which of the following statements always describes the relationship between current yield and

yield to maturity?

- a. The current yield is higher.
- b. The two yields are the same.
- c. The yield to maturity reflects the total return; the current yield only the cash return.
- d. The yield to maturity should be used in comparing bonds which are to be held to maturity; the current yield for comparing bonds which are to be sold before maturity.

6. A bank is solvent as long as it

- a. has enough capital to pay off depositors
- b. has mostly good loans
- c. does not experience a run on its deposits
- d. is able to meet all demands by depositors for payment

7. As opposed to most other debt instruments, mortgage loans tend to

- a. charge lower interest rates
- b. be of larger denomination
- c. pay interest less frequently
- d. be repaid over the life of the loan

8. In most variable-rate mortgages, the homebuyer

- a. assumes none of the interest rate risk
- b. assumes all of the interest rate risk
- c. shares the interest rate risk with the lender
- d. does not repay the principal until maturity

9. A futures contract is an agreement to trade an asset

- a. in the future at a price determined today
- b. today at a price prevailing at some future date

c. in the future at a price prevailing in the future

d. today at a price determined today

10. What is the object of fixed exchange rates?

a. To prevent exchange rates from changing

b. To prevent misallocation of economic resources

c. To eliminate the economic fluctuations that result from short-run, self-reversing forces

d. To prevent the effects of one country's inflationary policies from spreading to other countries

11. If a bank has more rate-sensitive assets than rate-sensitive liabilities, then a(n) _____ in

interest rates will _____ bank profits.

a. increase; increase

b. increase; reduce

c. decline; increase

d. decline; not affect

12. Which of the following has done the most to prevent bank failures?

a. Federal deposit insurance

b. Bank examinations

c. Separation of investment and commercial banking

d. Restrictions on branch offices

13. The term structure of interest rates shows

a. how interest rates vary over time

b. the pattern of interest rates over the long-term business cycle

c. security yields ranked by default risk structure

d. the relationship between maturity and yield for similar securities

14. If the yield on long-term securities is greater than the yield on comparable short-term securities,

the yield curve will be

- a. positively sloped
- b. negatively sloped
- c. in the negative quadrant
- d. undefined

15. In the process of deposit deregulation in the early 1980's, banks were allowed to

- a. offer checkable deposits that paid implicit interest only
- b. pay explicit market rates on savings and time deposits and limited interest on checkable deposits
- c. pay below market explicit interest on savings and time deposits
- d. pay explicit market rates on checking accounts

16. Classical interest rate theory states that rising interest rates will

- a. increase the demand for money
- b. decrease the demand for money
- c. decrease investment expenditures
- d. increase the quantity of saving

17. A central bank sale of _____ to purchase _____ in the foreign exchange market results in

an equal rise in its international reserves and the monetary base.

- a. foreign assets; domestic currency
- b. foreign assets; foreign currency
- c. domestic currency; domestic assets
- d. domestic currency; foreign assets

18. When does a negative yield curve tend to exist?

- a. During a period of unemployment
- b. During a period of inflation
- c. During a period of deflation
- d. During a period of full employment

19. Compared to future contracts, forward contracts

- a. are not standardized
- b. involve an intermediary or exchange, rather than direct contact between buyer and seller
- c. have less formal markets
- d. make delivery most often

20. Which of the following is true of restrictions on branch offices?

- a. National banks can establish branches in any state.
- b. Unit banking is more common on the West Coast.
- c. Branching laws are determined by each individual state.
- d. Statewide branching is illegal in almost every state

Answers

- 1. (c)
- 2. (b)
- 3. (a)
- 4. (b)
- 5. (c)
- 6. (d)
- 7. (d)
- 8. (c)
- 9. (a)

10. (c)

11. (a)

12. (a)

13. (d)

14. (a)

15. (b)

16. (d)

17. (d)

18. (b)

19. (b)

20. (c)