

# NCERT Solutions for Class 12 Business Studies Business Finance and Marketing Chapter 2

## Financial Markets Class 12

### Chapter 2 Financial Markets Exercise Solutions

**Multiple choice questions :** Solutions of Questions on Page Number : 286

**Q1 :**

**Primary and secondary markets**

- (a) Compete with each other
- (b) Complement each other
- (c) Function independently
- (d) Control each other

**Answer :**

Primary and secondary markets complement each other. Primary market deals with the issue of new securities. That is, through the primary market a company raises capital directly from the borrowers. On the other hand, secondary market deals in the purchase and sale of the existing securities. That is, once the securities are issued in primary market, they are then traded in the secondary market. It is in this sense that both the markets complement each other.

**Q2 :**

**The total number of Stock Exchange in India is**

- (a) 20
- (b) 21
- (c) 22
- (d) 23

**Answer :**

The total number of Stock Exchange in India is 23. However, as per the latest updates by SEBI, there are 25 Stock Exchanges in India.

**Q3 :**

**The settlement cycle in NSE is**

- (a) T+5
- (b) T+3
- (c) T+2
- (d) T+1

**Answer :**

Settlement cycle refers to the time period within which the actual settlement between the buyers and sellers of shares takes place. In other words, it refers to the time period within which the seller of the shares would receive the money and the buyers of the share would get the ownership of the share. NSE follows a T+2 settlement cycle. Here, T refers to the transaction date. Thus, T+2 implies that transactions in NSE are settled within 2 days of the transaction date.

**Q4 :**

**The National Stock Exchange of India was recognized as stock exchange in the year**

- (a) 1992
- (b) 1993
- (c) 1994
- (d) 1995

**Answer :**

National Stock Exchange of India was promoted by financial institutions and established as a public limited company in 1992. However, it was '*recognized as a stock exchange*' in April, '1993' under Securities Contracts (Regulation) Act, 1956. It commenced its operations in capital market in 1994 and operations in derivatives market were started in 2000.

**Q5 :**

**NSE commenced futures trading in the year**

- (a) 1999
- (b) 2000
- (c) 2001
- (d) 2002

**Answer :**

National Stock Exchange started its operations in the year 1994. It commenced '*trading in future*' and options market on 12 June, '2000'.

**Q6 :**

**Clearing and settlement operations of NSE are carried out by**

- (a) NSDL
- (b) NSCCL
- (c) SBI
- (d) CDSL

**Answer :**

The clearing and settlement operations of NSE are carried out by NSCCL. NSCCL (National Securities Clearing Corporation Ltd.) was incorporated in August, 1995 and it commenced its clearing operations for NSE in April 1996.

**Short answerslong answersmultiple choice questions : Solutions of Questions on Page Number : 287**

**Q1 :**

**What are the functions of a financial market?**

**Answer :**

A financial market refers to the market where the creation and exchange of financial assets such as shares and debentures takes place. The following are the functions of a financial market.

i) ***Transfer of Savings and Alternatives for Investment***

A financial market acts as a link between the savers and the investors. It provides a platform for the transfer of savings from the households to the investors. It also provides

savers with various alternatives for investment and thereby, directs the funds to the most productive investment.

ii) ***Establishes the Price***

Similar to a commodity, the price of a financial asset is established through the forces of demand and supply for funds. Financial market provides a platform for the interaction of the demand of the funds (represented by the business firms) and the supply of funds (represented by the households). Thereby, it helps in determining the price of the asset being traded.

iii) ***Facilitates Liquidity***

An asset or a security can be easily purchased and sold in a financial market. This renders liquidity to the assets. That is, through trading in the financial market assets can be easily converted into cash or cash equivalents.

iv) ***Reduced Cost of Transaction***

By rendering information regarding the securities being traded, their price, availability, etc., a financial market helps in reducing the cost of transaction in terms of effort, money and time.

**Q2 :**

**Explain the various Money Market Instruments.**

**Answer :**

Money Market refers to the market where short term funds are traded. Herein, short term funds are in the form of monetary assets having a maturity period of maximum one year. The following are some of the common money market instruments.

(i) ***Treasury Bil (T-Bills)***

Treasury Bill refers to a promissory note used for short term borrowing by the government. They are the most commonly used money market instrument. They are auctioned and issued by the Reserve Bank of India on behalf of the Central Government. T-bills are available for a minimum of Rs 25,000 and in multiples thereof. Generally, three types of treasury bills are issued 91-days, 182-days and 364-days. T-Bills are issued at a discount and redeemed at par. That is, they are issued at a price lower than their face value and at the time of redemption, the investor gets the amount equal to the face value. The difference between the value at which they are issued and the redemption value is the interest received on them. For example, if an investor purchases a 182-days treasury bill with a face value of Rs 56,000 for Rs 50,000. At the time of maturity, the investor will receive Rs 56,000. Thus, the difference of Rs 6,000 (56,000 - 50,000) is the interest receivable on the bill. T-Bills are also called Zero-Coupon Bonds. T-bills are highly liquid bonds. Moreover, as they are issued by the RBI, they have negligible risk and offer assured return.

## (ii) **Call Money**

Call money is an instrument used for interbank transactions. Through call money, the banks borrow from each other to meet any shortage of funds required to maintain CRR. That is, any bank in shortage of funds borrows from other bank having surplus funds. Call money have a very short maturity period ranging from one day to fifteen days. Interest paid on such loans is known as call rate. Call rate is highly volatile and varies from day to day. There exists a negative relationship between call rate and other money market instruments such as Commercial Papers and Certificate of Deposits. That is, as the call rate rise, other instruments of money market become cheaper and their demand increases.

## (iii) **Commercial Paper (CPs)**

Commercial paper is an unsecured short term money market instrument. It is a negotiable and transferable promissory note with a maturity period ranging from a minimum of 15-days to a maximum of one year. They were introduced in India in 1990. CPs are mainly issued by large and creditworthy companies to raise short-term funds. Large companies view Commercial Papers as an alternative to bank borrowings and borrowings through capital market. The rate of interest payable on Commercial Papers is lower than the market rates. Generally, companies use Commercial Papers for bridge financing. That is, to raise the funds required to meet the floatation cost incurred on long term borrowings in the capital market. For example, if a company wishes to raise finance from the capital market to purchase land. For this, it will have to incur floatation cost such as cost related to brokerage, commission, advertising, etc. To finance such floatation costs the company can issue Commercial Paper.

## (iv) **Certificate of Deposit (CDs)**

Certificate of Deposits are time deposits which are negotiable and unsecured in nature. They are bearer instruments for a short and specified time period ranging from one month to more than five years. CDs are a secured form of investment, which are issued to individuals, corporations and companies by the commercial banks and development financial institutions. Herein, higher interests are offered for higher deposits. They are issued to meet the demand for credit in times of tight liquidity position. For example, when a person buys a CD by depositing a specific amount, he receives a certificate wherein the term of deposit, the interest rate applicable and the date of maturity is written. On the date of maturity, the individual gets entitled to receive the principle amount and the earned interest on it.

## (v) **Commercial Bill**

Commercial bill also known as bank bill or bill of exchange refers to the instrument used to finance the working capital requirements of a firm. It is a short term negotiable instrument. Companies use Commercial Bills to finance their credit sales. For example, when an individual makes credit sales, the buyer becomes liable to make the payment on a specified future date. Herein, the seller draws a bill of exchange and gives it to the buyer mentioning a specific maturity period. Once the bill is accepted by the buyer it becomes a marketable instrument which can be discounted with a bank. For instance, if

the seller requires funds before the maturity period, he can discount the bill with a commercial bank.

**Q3 :**

**"Money Market is essentially a Market for short term funds". Discuss.**

**Answer :**

Money market refers to the market for trading of short term securities and funds. Securities traded in the money market have a very short maturity period ranging from one day to one year. Such assets act as a close substitute for cash or money. Due to their short maturity period they are also known as 'Near Money instruments'. Money market instruments act as an important source of finance for working capital requirements. They enjoy a high degree of liquidity. DFHI discounts money market securities and offers a ready market for them. In addition, securities traded in the money market are safe and secure as the transactions are made in those instruments that are issued by financial institutions and those companies that are financially strong. Common instruments traded in the money market are treasury bills, commercial paper, call money, certificate of deposit, etc.

**Q4 :**

**What are the methods of floatation in Primary Market?**

**Answer :**

The following are the various methods through which floating of new issues can be done.

**(i) Offer through Prospectus**

The most commonly used method for raising funds in primary market is offer through prospectus. It involves inviting the subscriptions from public by issue of prospectus. A prospectus is published as advertisements in newspapers, magazines, etc. It provides such information as the purpose for which the fund is being raised, company's background and future prospects, its past financial performance, etc. Such information helps the public and the investors to know about the company as well as the potential risk and the earnings involved. Such issues need to be listed on one of the stock exchanges and should be in accordance with the guidelines and rules listed under the Companies Act and SEBI disclosure.

**(ii) Offer through Sale**

As against offer through prospectus, under the offer through sale method, the company does not issue securities directly to the public rather they are issued through

intermediaries such as brokers, issuing houses, etc. That is, under offer through sale, securities are issued in two steps, first the company sells its securities to the intermediaries at the face value and later the intermediaries resell the securities to the investing public at a higher price than the face value to earn profit.

(iii) ***Private Placement***

Under this method, the securities are sold only to some selected individuals and big institutional investors rather than to the public. The companies either allot the securities themselves or they sell the securities to intermediaries who in turn sell them to selected clients. This method saves the company from various mandatory or non-mandatory expenses such as cost of manager fees, commission, underwriter fees, etc. Thus, the companies which cannot afford the huge expenses related to public issue often go for private placement.

(iv) ***Rights Issue***

Under the Companies Act 1956, it is the right of the existing share holders of a company to subscribe to the new shares issued by it. The existing share holders are offered subscription of new shares of the company in proportion to the number of shares possessed by them.

(v) ***e-IPOs***

It is system of issuing securities through online system. If a company decides to offer its securities through an online system it is required to get into an agreement with the stock exchange. This is called Initial Public Offer (IPO). Company appoints brokers for accepting applications and placing orders. A company can apply to get listed in any stock market except from the one through which it has already offered securities. Herein, the lead manager looks upon the various activities and coordinates them.

**Q5 :**

**What is a Treasury Bill?**

**Answer :**

Treasury Bill is a short term promissory note issued by the Reserve Bank of India on behalf of the Central Government of India. They are issued to fulfil the short-term fund requirements of the Government of India. Maturity period of Treasury Bills ranges from 14 days to 364 days. Generally, these bills are brought by commercial banks, LIC, UTI, non-banking financial companies, etc. They are also called Zero-Coupon Bonds. Treasury bills are highly liquid instruments because of the fact that the RBI is always ready to purchase these bills. Moreover, they are also considered to be the safest instrument as they are issued by the RBI. They are available for a minimum amount of Rs 25,000 and in multiples thereof. Treasury Bills are issued at a discount i.e. they are issued at a price which is lower than the face value and are redeemed at par. Herein,

the discount (the difference between the price of issue and the redemption value) is the interest received at the time of redemption.

**Q6 :**  
**Explain the recent Capital Market reforms in India.**

**Answer :**

A capital market refers to the market that deals in the trading of medium and long-term securities. That is, it deals in those securities that have a maturity period of greater than or equal to one year. Capital market comprises of instruments such as equity and preference shares, debentures, bonds, mutual funds, public deposits, etc. A capital market can be divided in two parts namely, Primary Market and Secondary Market. Primary market deals with issue of new securities. Issue of new securities in the primary market directs funds towards those entrepreneurs who either want to start a new enterprise or wish to expand the existing one. Secondary market, on the other hand, deals in the sale and purchase of the existing securities. That is, it deals in the trading of those securities that were initially issued in the primary market.

The history of capital market in the form of stock exchange dates back to the eighteenth century. The Government of India introduced the Companies Act in 1850 with the aim of generating investor interest in corporate securities. The first stock exchange was set up in India in the year 1875 as 'The Native Share and Stock Brokers Association' in Bombay. Later it was renamed as 'Bombay Stock Exchange' (BSE). In the subsequent years stock exchanges were developed in Ahmedabad, Calcutta and Madras.

In 1990s, the Indian secondary market only consisted of regional stock exchanges wherein, first being the BSE. However, after the reforms of 1991, the Indian Stock Market acquired a three-tier system. This consisted of Regional Stock Exchanges, National Stock Exchange and Over the Counter Exchange of India (OTCEI).

### ***Regional Stock Exchange***

The first Regional Stock Exchange was developed in Ahmedabad as Ahmedabad Stock Exchange (ASE) in 1894. Similarly, in 1908, Calcutta Stock Exchange (CSE) was established. Subsequently in the later years other regional stock exchanges were established in Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore. Recently, regional stock exchanges were developed in Coimbatore as Coimbatore Stock Exchange and in Meerut as Meerut Stock Exchange. Currently, there are 22 regional stock exchanges in India.

### ***National Stock Exchange***

The NSE is the latest technology driven stock exchange which was recognised in 1993. It started its operations in 1994 with trading in money market securities. Later, it also expanded its trading operations in capital market segment. NSE was set up in order to establish a nationwide platform for trading in all types of securities. It ensured

development of fair and efficient securities market. Within the span of its existence, NSE has transformed the Indian capital market and has been able to take the stock market to the investor's door step. It has provided a wide screen-based automated trading system across the nation ensuring equal access to all the investors.

### ***Over the Counter Exchange of India (OTCEI)***

OTCEI is a company which was set up in 1990 under the Companies Act, 1956 but later was recognised as a stock exchange under the Securities Contracts Regulation Act, 1956. It commenced its operations in trading in 1992 and is modelled along the lines of NASDAQ, the OTC exchange in USA. It aims at providing the small companies an easy access to the capital market. OTCEI provides a screen based nationwide trading system, that acts as a place where buyers meet the sellers and negotiate for an acceptable terms of trade. Herein, dealers can trade both in new issue of securities as well as secondary market. It is a single window exchange which provides a convenient, transparent and efficient avenue for capital market investment.

**Q7 :**

**Distinguish between Capital Market and Money Market.**

**Answer :**

The following points highlight the difference between Capital Market and Money Market.

<b>Basis of Difference</b>	<b>Capital Market</b>	<b>Money Market</b>
Time Span of Securities	Capital Market mainly deals in the trading of medium and long-term securities wherein, the maturity period is more than one year.	Money Market deals in the trading of short-term securities wherein, the maturity period can vary from one day to a maximum of one year.
Liquidity	Capital market securities are liquid in nature as they are tradable on stock exchanges, but are less liquid in comparison to the money market securities.	The securities traded are highly liquid in nature. DFHI discounts money market securities and offers a ready market for them.
Returns Expected	Expected returns are higher due to the possibility of capital gains in long-term and regular dividends or bonus.	Expected returns are lower due to short duration.
Instruments	Instruments traded in capital market comprise of equity shares, preference shares, debentures, bonds and other long term securities.	Instruments traded in money market comprise of treasury bills, commercial bills, certificate of deposits and other short term securities.

Risk	Capital market securities involve greater risk in terms of repayment of the principal amount.	Money market securities are less risky due to short time period and sound financial position of the issuers.
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**Q8 :**  
**Explain the objectives and functions of the SEBI.**

**Answer :**

The Securities and Exchange Board of India was established in 1988 in order to encourage an orderly and healthy growth of the securities market. SEBI was set with an overall objective of investor protection and to promote the development and regulation of the functions of the securities market. The following are the listed objectives.

- (i) **Regulation:** The main objective of SEBI was to regulate the functioning of the stock exchange and the securities market. It aims at providing a place where the issuers of securities (i.e. companies) can raise funds in an easy and confident manner.
- (ii) **Protection:** SEBI educates the investors by providing them valuable information regarding various securities and companies. It provides them with the guidelines related to efficient investment. It provides them adequate and reliable information about the companies and thereby, helps them in taking wise and informed investment decisions.
- (iii) **Prevention:** To combat the malpractice in trading of securities was the basic reason for the establishment of SEBI. Malpractice such as insider trading, violation of rules and regulations, non-adherence to Companies Act, etc. erodes the confidence of investors. SEBI aims at checking these malpractice by creating a balance between the self regulation of a business and the legal statutory regulations.
- (iv) **Code of Conduct:** Through efficient regulation, SEBI aims at developing a code of conduct for fair trade practices by intermediaries such as brokers, merchant bankers, underwriters, etc. This helps in making them competitive and professional.

To attain the aforementioned objectives, SEBI perform 3 main functions namely, Regulatory, Development and Protective functions. The following are the functions performed by SEBI.

(i) **Regulatory Functions**

”ϕ **Registration:** One of the regulatory functions performed by SEBI is the registration of the brokers, sub-brokers, agents and other players in the market. Registration of collective mutual schemes and Mutual Funds is also done by SEBI.

”ϕ **Regulating the Work:** SEBI regulates the working of the stock brokers, underwriters, merchant bankers and other market intermediaries. It frames rules and regulations for the working of the intermediaries. SEBI also regulates the takeover bids by the

companies. It conducts regular enquires and audits of stock exchange and intermediaries.

”ϕ *Regulation by Legislation*: SEBI performs and exercise various other powers which are delegated by the Government of India under the Securities Contracts (Regulation) Act, 1956. Besides, it levies fee or other charges for carrying out the purposes of the Act.

(ii) ***Development Functions***

”ϕ *Training*: SEBI promotes the training and development of the intermediaries of the securities market in order to promote healthy growth of the securities market.

”ϕ *Research*: By conducting research in the required and important areas of the securities market, SEBI publishes useful information. This helps the investors and other market players to make wise investment decisions.

”ϕ *Flexible Approach*: SEBI has adopted a flexible and adaptive approach such permitting internet trading, IPOs, etc. Such measures promote the development of capital market.

(iii) ***Protective Functions***

”ϕ *Prohibition*: SEBI prohibits fraudulent and unfair trade practices. It prevents the spreading of misleading and manipulative statements which are likely to affect the working of the securities market. SEBI educates the investors by providing them valuable information regarding various securities and companies so as to enable them to make wise investment decisions.

”ϕ *Checks on Insider Trading*: Insider trading refers to a situation where an individual connected with the company leaks out crucial information regarding the company. Such information may adversely affect its share prices. SEBI keeps a strict check on such insider trading.

”ϕ *Promotion and Protection*: SEBI encourage fair trade practices and promotes a code of conduct for the intermediaries. It undertakes step for investor protection and education. It also checks the manipulation of price of securities.

**Q9 :**  
**What are the functions of a Stock Exchange?**

**Answer :**

Stock Exchange refers to a market where buying and selling of the existing securities take place. The following are the main functions of a stock exchange.

(i) ***Provides Liquidity and Marketability***: Stock exchange provides a ready platform for trading of existing securities. In other words, it provides a continuous market for the sale and purchase of securities. Through stock exchange, securities can be easily converted

into cash whenever required. In addition, long-term securities can be converted to medium-term and short-term through stock exchange.

(ii) **Determination of Prices:** A stock exchange helps in establishing the price of the monetary assets that are traded in that market. It provides a platform for interaction for buyers and sellers of securities and thereby, helps in the determination of prices of the securities through the forces of demand and supply.

(iii) **Fair and Safe Market:** As stock exchange is a legal and well regulated market. It trades within the defined and the existing legal framework. Thereby, it ensures safety and fairness in transactions.

(iv) **Facilitates Economic Growth:** In a Stock Exchange the securities are continuously brought and sold. This continuous process of disinvestment and reinvestment helps in channelising the savings and the investments to the most productive use. This, enhances capital formation and economic growth.

(v) **Spreading Equity Cult:** Through regulation of the issues and better trading practices, a stock exchange helps in educating the people about investment. It promotes and encourages the people to invest in ownership securities.

(vi) **Acts as an Economic Barometer:** Through changes in the share prices, a stock exchange indicates the changes in economic conditions. For instance, a boom (or recession) is reflected in the rise (or fall) in the share prices.

(vii) **Scope for Speculation:** It is generally believed that certain degree of speculation is necessary for better liquidity and to maintain demand and supply of securities. Stock exchange provides a reasonable and controlled scope of speculation within the provisions of law.

**Q10 :**

**Explain the various segments of the NSE.**

**Answer :**

The National Stock Exchange is the technology driven stock exchange which was incorporated in 1992. It was recognised as a stock exchange in 1993 and started operations in the year 1994. NSE provides trading in two main segments namely, Whole Sale Debt Market Segment and Capital Market Segment.

(i) **Whole Sale Debt Market Segment**

This segment provides a platform for trading in fixed income securities such as state development loans, bonds issued by public sector undertaking, corporate debentures, commercial paper, mutual funds, central government securities, zero coupon bonds, treasury bills, etc. NSE started operations in Whole Sale Debt Market in June 1994. It is the first fully screen based system for trading in debt market. That is, it is the first computer based trading system. Trading in the debt market involves two parties- trading

members (which are the recognised brokers of NSE) and the participants (i.e. the buyers and sellers of securities). The transactions among the participants are settled through members. For instance, the members place an order for the seller of a security which is then suitably matched by another member for buyer of a security wishing to purchase that security. An order remains in the system until it is suitably matched. This segment of NSE is also known as NEAT (National Exchange for Automated trading).

(ii) **Capital Market Segment**

Under this segment, NSE deals with trading in equity shares, preference shares, debentures, exchange traded funds as well as retail Government securities. It provides an efficient and transparent platform for a fair trading system. The capital market segment commenced its working in November 1995. The trading system of NSE Capital Market segment is also known as the National Exchange for Automated Trading - Capital Market (NEAT- CM). The trading operations of the Capital Market segment remain the same as in the Whole Sale Debt market system.

**Q11 :**

**What are the objectives of the SEBI?**

**Answer :**

Securities and Exchange Board of India (SEBI) was established for promoting an orderly and healthy growth of the securities market in India. The following points highlight the overall objectives of SEBI.

(i) **Regulation:** The basic objective of SEBI is to regulate the functioning of stock exchange and the securities market. It aims at providing a place where the issuers of securities (i.e. companies) can raise funds in an easy and confident manner.

(ii) **Protection:** SEBI works on educating the investors and provide guidelines related to investment. It provides them adequate and reliable information about the companies and thereby, helps them in taking wise and informed investment decisions.

(iii) **Prevention:** To combat the malpractice in trading of securities was the basic reason for the establishment of SEBI. Malpractice such as insider trading, violation of rules and regulations, non-adherence to Companies Act, etc. erodes the confidence of investors. SEBI aims at checking these malpractice by creating a balance between the self regulation of a business and the legal statutory regulations.

(iv) **Code of Conduct:** Through regulation, SEBI develops a code of conduct for the fair trade practices by the intermediaries such as brokers, merchant bankers, underwriters, etc. SEBI controls the activities of these intermediaries and provides them a professional and competitive environment.

**Q12 :**

**State the objectives of the NSE.**

**Answer :**

National Stock Exchange of India was incorporated in the year 1992. It was recognised as Stock Exchange in 1993 and started operations in 1994. It was established by leading banks, financial institutions, insurance companies and financial intermediaries. NSE was established with the following objectives.

(i) NSE aimed at setting up a single nationwide trading system for providing the trading facility in all types of securities. Such a system increases the confidence of the investors.

(ii) It ensured that all the investors over the country get an easy and equal access through an appropriate communication network. It increases the liquidity of the securities. Under the system of regional stock exchange the number of people involved in the transaction was limited. As against this, NSE incorporates transactions from investors from the entire country and thereby, increases the liquidity of the securities.

(iii) By using an electronic trading system, NSE aims at providing a fair, efficient and transparent securities market. Any person can get information regarding the trading of various securities from the local terminals of NSE. Thereby, it helps in reducing fraud in trading.

(iv) One of the objectives of NSE includes enabling shorter settlement cycles and book entry settlements.

(v) NSE aimed at meeting the international standards and benchmarks of stock exchange.

**Q13 :**

**OTCEI was started on the lines of**

**(a) NASDAQ**

**(b) NYSE**

**(c) NASAQ**

**(d) NSE**

**Answer :**

OTCEI (Over the Counter Exchange of India) was incorporated in the year 1990 on the lines of NASDAQ which is the OTC in USA. OTCEI is a fully computerised and transparent stock exchange. It was established with the objective of addressing the needs of small companies and helps in maintaining the liquidity of their securities.

**Q14 :**

**What is the OTCEI?**

**Answer :**

Over the Counter Exchange of India (OTCEI) was incorporated in 1990 under the Companies Act, 1956 and was recognised as a stock exchange under the Securities Contracts Regulation Act, 1956. It commenced operations in the year 1992. It aims at providing the small and medium companies an easy access to the capital market. OTCEI is a fully computerised and single window exchange system. OTCEI is modelled along the lines of NASDAQ, the OTC exchange in USA. OTC was promoted by UTI, ICICI, IDBI, LIC, IFCI, GIC and SBI financial services. It does not involve a geographical area rather, trading takes place through its counters or offices through telephones and other modes of communication. It acts as a place where buyers meet the sellers and negotiate for an acceptable terms of trade. It provides a convenient, transparent and efficient avenue for capital market investment. It incorporates an exclusive list of companies as only those companies which have an issued capital of 30 lakh or more can be listed on OTCEI. It provides liquidity to the securities along with practicing a fair trade system. It also aims at providing cheaper and easy means of trade to public as well as small companies.

**Q15 :**

**To be listed on OTCEI, the minimum capital requirement for a company is**

- (a) Rs. 5 crores**
- (b) Rs. 3 crores**
- (c) Rs. 6 crores**
- (d) Rs. 1 crore**

**Answer :**

To be listed on OTCEI, the minimum capital requirement for a company is Rs 3 crores and the maximum is Rs 50 crores.