



**SHEKHAWATI INSTITUTE OF TECHNOLOGY  
DEPARTMENT OF MANAGEMENT STUDIES  
SIKAR, RAJASTHAN**

1<sup>st</sup> Mid - Term Examination 2017-18 (MBA 4<sup>th</sup> Sem.)  
Subject Code & Name - M-411 Banking & Insurance

Max. Marks - 30  
Time - 01.30 hrs

**Model Question - Answer Paper**

Q.①. what do you mean by Financial system? Describe the various components of financial system.

Ans. → A business unit needs funds for paying wages and salaries, for buying raw materials, for purchasing new machinery or replacing an old one etc. Traders require finance for buying and stocking goods in their shops and godowns. Farmers require finance for different periods for different purposes.

The various components of financial system are-

- (i) Financial markets
- (i) Financial institutions
- (ii) financial instruments
- (iv) Financial intermeditries

(i) Financial markets :- It is a significant component which performs a crucial function in the saving & investment process as facilitating organisation. They are not sources of finance but are a link between the savers and the investors, both individual as well as institutional.

- (a) money markets
- (b) Capital markets

(2)

- (ii) financial institutions :- It comprises the financial institutions/intermediaries. the financial institutions are institutional sources of finance to the industry.
- (iii) financial instruments :- The third component of the financial system is the financial instruments. They represent claims on a stream of income and particular assets.
- (iv) financial intermediaries :- The indirect securities offered to the individual investors is better investment alternative than the direct/primary security by pooling units of mutual funds.

Q. ②. what are the Basic functions of financial system?

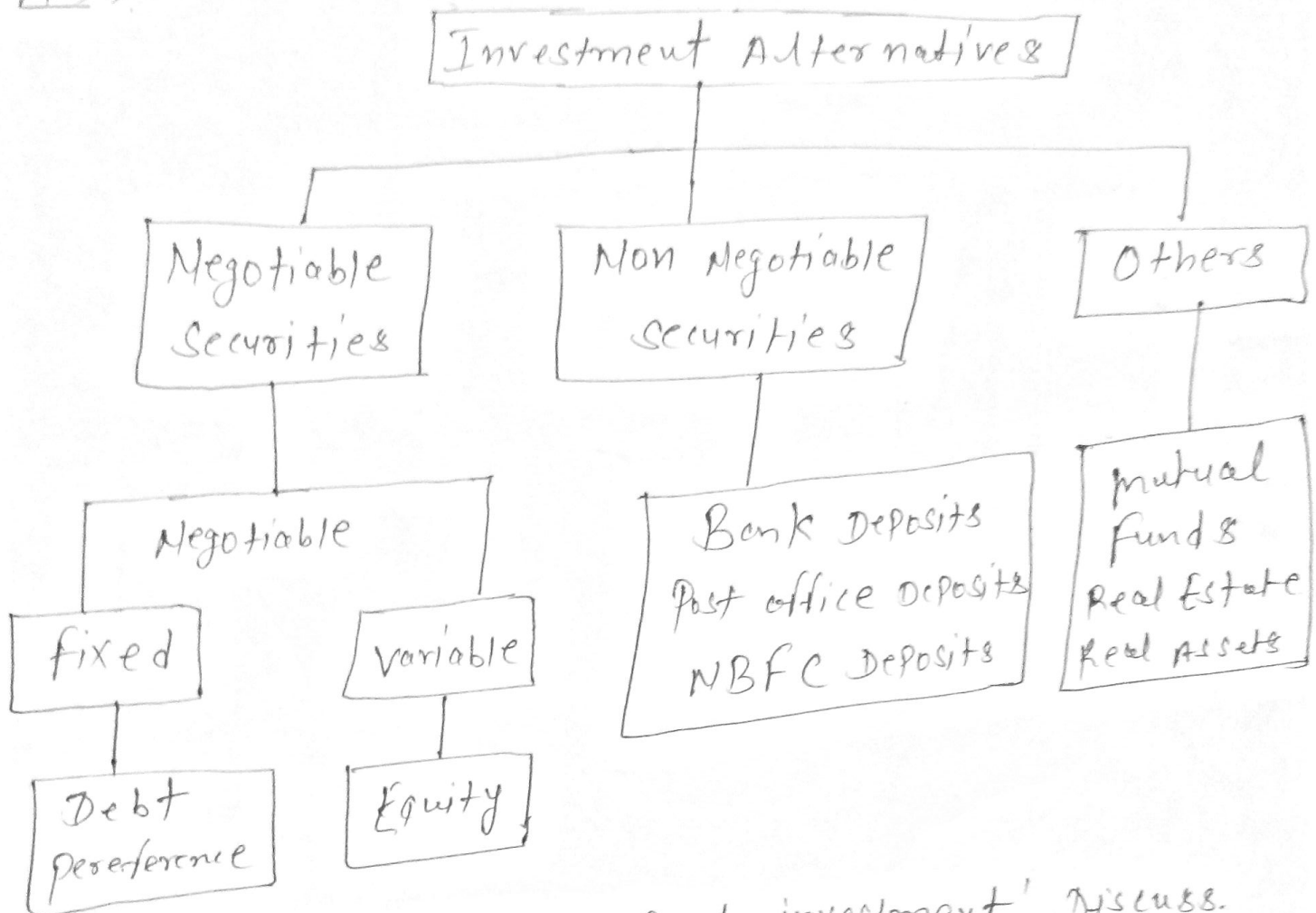
Ans → (i) The financial system play a crucial role in economic development through saving - investment process.

- (ii) The savings - investment process, in a financial system helps in accelerating the rate of capital formation.
- (iii) financial system helps to mobilise savings effectively and allocate the same efficiently among the ultimate users of funds
- (iv) Helps increase savings that is the resources that would have generally been used for consumption purposes can be released for others.

③

Q. ③ what are the various forms of investment alternatives?

Ans:



Q. ④ Equity Shares are a good investment! Discuss.

Ans. Equity Shares are those which are not Preference Shares.

They are also called ordinary Shares. Equity Shares provide initial Capital on permanent basis to the company, Being the real owners of the company, equity share holders control the affairs and bear the risks of the company. They get dividends only after the dividend payments to the preference share holders. In case of winding-up of the company, equity share holder are the last recipients of their capital.

④  
Q. ③ What are the major roles of RBI in Economic Development of India?

Ans →: Reserve Bank has greatly contributed in the economic development of India.

- (i) Issue & control of money (ii) Development of Banking & Financial
- (iii) Increase in capital formation (iv) Administration of Foreign Reserve (v) Development of Co-operative Institution
- (vi) management of public debt (vii) Balanced Development
- (viii) Credit control (ix) Economic and Technical Advice
- (X) Inspection and control.

### SECTION - B

Q. ① From the data given below calculate forward premium or discount, as the case may be, of the \$ is relation to the rupee spot

Rs./\$ Rs. 76.9542/77.1255

1 month forward  
Rs. 77.2111/4000

3 month forward  
Rs. 76.6055/7555

6 month forward  
Rs. 77.8550/9650

Solution :- Premium with respect to Bid Price.

$$1 \text{ month} = \left( \frac{\text{Rs. } 77.2111 - \text{Rs. } 76.9542}{\text{Rs. } 76.9542} \right) \times \frac{12}{1} \times 100 = 4 \text{ Percent per Annum}$$

$$6 \text{ month} = \left( \frac{\text{Rs. } 77.8550 - \text{Rs. } 76.9542}{\text{Rs. } 76.9542} \right) \times \frac{12}{6} \times 100 = 2.34 \text{ Percent per Annum}$$

Premium with respect to ask price.

$$1 \text{ month} = \left( \frac{\text{Rs. } 77.4000 - \text{Rs. } 77.1255}{77.1255} \right) \times \frac{12}{1} \times 100 = 4.27 \text{ Percent per Annum}$$

$$6 \text{ month} = \left( \frac{\text{Rs. } 77.9650 - \text{Rs. } 77.1255}{77.1255} \right) \times \frac{12}{6} \times 100 = 2.18 \text{ Percent per Annum}$$

In case of 3 months forward, spot rates are higher than the forward rates, signifying the forward rates are at a discount.

Discount with respect to Bid Price.

$$3 \text{ months} = \left( \frac{\text{Rs. } 76.9542 - \text{Rs. } 76.6055}{\text{Rs. } 76.9542} \right) \times \frac{12}{3} \times 100 = 1.81 \text{ Percent per Annum}$$

Discount with respect to Ask Price.

$$\left( \frac{\text{Rs. } 77.1255 - \text{Rs. } 76.7555}{\text{Rs. } 77.1255} \right) \times \frac{12}{3} \times 100 = 1.92 \text{ Percent per Annum}$$