



# SNS College of Technology

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COIMBATORE-641 035, TAMIL NADU

## DEPARTMENT OF MANAGEMENT STUDIES

**Academic Year** : 2024-25 **Semester** : 03  
**Course Code** : 23BAE707  
**Course Name** : Security Analysis and Portfolio Management  
**Unit** : II – Securities Market

### Questions [2 Marks]

**1. What are all the segments of financial market?**

- Primary Market
- Secondary Market

**2. Define capital market**

Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities.

**3. List out the different types of financial market**

- Capital Market
- Money Market
- Foreign Exchange market
- Commodity market
- Derivatives market
- Insurance market

**4. Define primary market**

Market where the securities which were not previously available and are offered to the investing public for the first time. Money is transferred from savers to the users. Money from the investors goes directly to the issuers of security. Investors exchange their money for securities and corporate exchange their securities for money.

**5. State various functions of primary market.**

- Origination
- Underwriting and
- Distribution

**6. Write a note on underwriting**

Underwriting entails an agreement whereby a person/organization agrees to take a specified number of shares or debentures or a specified amount of stock offered to the public in the event of the public not subscribing to it, in consideration of a commission – the underwriting commission.

**7. Differentiate primary and secondary market**

| Basis of comparison                             | Primary Market   | Secondary Market   |
|---|--|--|
| Meaning   | The place where fresh issue of shares is made  | The place where formerly issued securities are traded  |
| Also termed as                                  | New Issue Market   | After Market   |
| Type of Purchasing                              | Direct   | Indirect   |
| Number of times a security can be sold          | Only once  | Multiple times   |
| Buying and Selling between                      | Company and Investors  | Investors  |
| Who will gain the amount on the sale of shares? | Company  | Investors  |
| Intermediary                                    | Underwriters   | Brokers  |
| Price   | Prices are determined by the management with due compliance with SEBI requirement for new issue of securities. | Prices are determined by forces of demand and supply of the market and keeps on fluctuating. |

**8. State the Methods of floating new issue**

- Public Issue
- Rights Issue
- Private Placement

**9. Write a short note on book building**

Book Building is "a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built-up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document".

**10. Write a short note on the role of primary market**

- Medium for raising fresh capital.
- To make available the funds to meet up the long term capital requirements of corporate business and industry.
- Savings or surplus funds with the investors are converted into productive capital.
- Primary market performs the crucial function of facilitating capital formation in the economy.

**11. Mention some of the functions of stock exchange**

- Economic Barometer
- Pricing of Securities
- Safety of Transactions
- Contributes to Economic Growth
- Spreading of Equity Cult

**12. What is the main difference between offer of shares through book building and offer of shares through normal public issue?**

Price at which securities will be allotted is not known in case of offer of shares through book building while in case of offer of shares through normal public issue, price is known in advance to investor. In case of Book Building, the demand can be known everyday as the book is built. But in case of the public issue the demand is known at the close of the issue.

**13. Define Stock exchange**

Stock exchange means "any body of individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities".

A centralized market for buying and selling stocks where the price is determined through supply demand mechanisms.

**14. What is initial margin?**

Initial margin: Amount Investor Puts up / value of transaction or It is the part of transaction's value the customer must pay to initiate the transaction with other part being borrowed from the broker.

**15. Why stock market index is important?**

A good Stock Index captures the movement of the well diversified and highly liquid stocks. It is the pulse rate of the economy. Index movements reflect the changing expectations of the stock market about future dividends of the corporate sector.

**16. What is a public Issue?**

- When a company raises funds by selling/issuing its shares (or debenture / bonds) to the public through issue of offer document (prospectus).
- Initial Public Offer: When a company makes a public issue for the first time and gets its shares listed on stock exchange.
- Further public offer: When a listed company makes another public issue to raise capital, it is called further public / follow-on offer (FPO).

**17. What is a rights issue?**

- When a company raises funds from its existing shareholders by selling (issuing) them new shares / debentures, it is called as rights issue.
- The offer document for a rights issue is called as the Letter of Offer. Existing shareholders are entitled to apply for new shares in proportion to the number of shares already held.

**18. What is Private Placement?**

- Sale of securities privately by a company to a selected group of investors such as institutional investors, mutual funds or other financial institutions.
- Directly negotiated with the investors.
- Prospectus and Underwriting arrangements not required.
- Useful for small companies.

**19. What is Maintenance margin?**

Maintenance Margin: The percentage of a security's value that must be on hand as equity.

**20. What is Margin call?**

Margin Call: Demand from the broker for additional cash or securities as a result of the actual margin declining below the maintenance margin

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