

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR****Course: Financial Institutions and Markets
Semester- VI (Batch: 2019-24)****End Semester Online Examination: May 2022****Date: 14th May, 2022****Duration: 8 hours****Max. Marks: 50****Instructions:**

- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.
- Word Limit: 15 Marks:1000-1500 words, 10 Marks: 600-800 words, 5 Marks:300-500 words.

Marks

Q.1 A financial system has an impact on the basic existence of an economy and its citizens. (15)

The policy function is one of the important functions of any financial system.

Discuss the significance of policy function by analyzing the causes behind an ongoing economic crisis in Sri Lanka which is characterized by economic mismanagement, a rise in external debt, depleting foreign exchange reserves, a weakened currency, and rising prices. What would you recommend to the Indian policymakers based on the situation in Sri Lanka?

OR

In bank-based systems, banks play a leading role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers, and providing risk management vehicles. In market-based systems, securities markets share center stage with banks in getting society's savings to firms, exerting corporate control, and easing risk management.

Financial structure matters. Bank financing may contribute more to systemic risk than market financing, due to its more leveraged nature, larger asset-liability mismatches, and greater interconnectedness. Moreover, markets can provide 'spare tire' insurance against problems within the banking sector turning into economy-wide distress. This reduces the depth and length of a systemic crisis. Indeed, the data show that systemic risk decreased relatively quickly after the financial crisis of 2008 in more market-based financial structures when compared to more bank-based financial structures. The less dominant banks are, the easier banks' financial intermediation can be substituted for by markets.

Which of the structure you would recommend for the development of the Indian Economy? Substantiate your arguments with data wherever possible.

Q.2 As per the Reserve Bank of India's directives to Banks, 'loans and advances granted to various categories of borrowers will become NPAs when they cease to generate income (10)

for the bank and where the interest and/ or installment of principal loan amount remain overdue for a period of more than 90 days or the account remains 'out of order' in respect of an Overdraft/Cash Credit/Bills purchase continuously in excess of the sanctioned limit/drawing power for 90 days.

Discuss the severity of the NPA issue in the Indian Banking Sector, its causes, and possible solutions. Substantiate your answer with data wherever possible.

- Q.3 Digitalization in India is rapidly growing. Digital technology and big data/analytics are still poised to shake up the financial services industry. Fintech start-ups have brought in huge disruptions in financial services but as we see it, many banks haven't set their sights nearly high enough in response to disruptive attackers. They've been overly cautious, playing defense, with me-too digital initiatives primarily designed to counter moves by actual or potential disruptors. Even banks that would like to be more aggressive; find it difficult to know exactly what to do. Most big banks have the tools and advantages to push the boundaries of their existing business models. (10)

Do you agree with these observations? Provide data to support your answer. Also, suggest what banks can do to counter these disruptions and fuel their future growth.

- Q.4 Development Finance Institutions (DFIs), Mutual Funds, Insurance companies, and Non-Banking Finance Companies (NBFCs) are non-bank finance institutions present in any economic system. Discuss the role and importance of these financial institutions in the economic system. (10)

OR

A depository is an organization that holds securities of an investor in an electronic form through a registered depository participant. Discuss the need for setting up a depository in India and describe the process of the depository.

- Q.5 Write a note on 'Types of mutual fund schemes' (5)

OR

Write a note on 'Capital market instruments in India'
