

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: Money, Banking and Public Finance
Semester- III (Batch: 2021-26)

End Semester Examination: November 2022

Date: 11th Nov, 2022

Duration: 3 hours

Max. Marks: 50

Instructions:

- Read the questions properly and write the answers in the given answer book.
- Do not write anything on the question paper.
- 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 for each 7/8 marks question is approximately 350-450 words & ± 50 words; 5/6 marks is approximately 250-300 words & ± 30 words; 3/4 marks is approximately 80-120 words & ± 20 words and 1/2 marks is approximately 40-80 words & ± 15 words

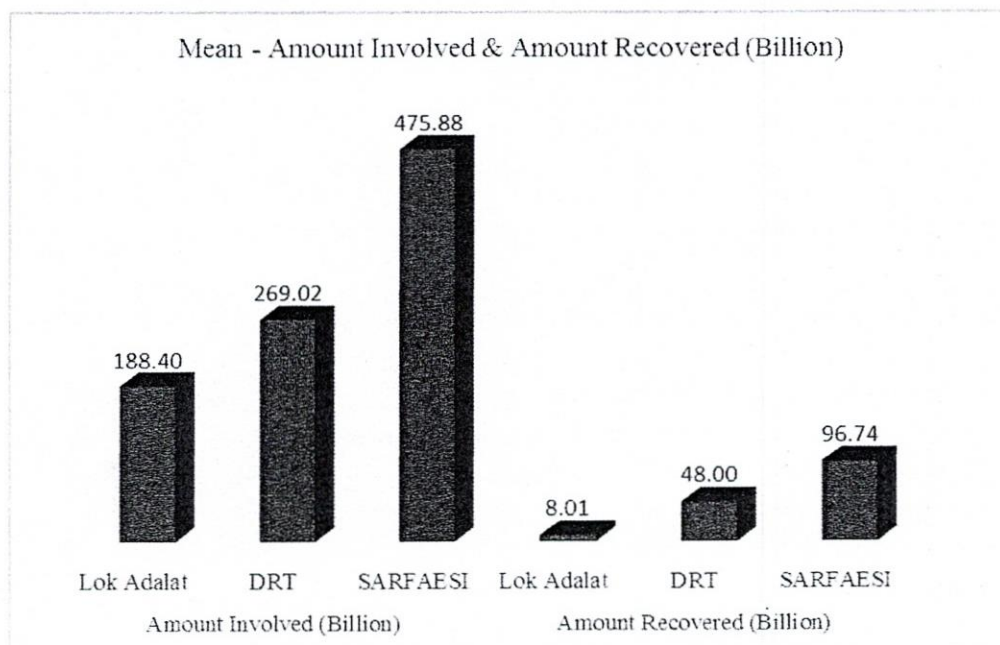
You must answer the problems as a phenomenon and substantiate with additional facts and evidence from the conceptual and measurement worlds (wherever possible). Also, support your analysis with strong arguments, reasoning, rationale and/or examples. You may take the aid of a chart, table, diagram and/or figure wherever necessary.

Marks

Answer any FIVE of the following questions.

- Q.1 a) Discuss the debt recovery tools for personal and corporate insolvency. Also, elucidate the deterrence effect of debt recovery tools on prospective insolvents. Apply relevant law and economics concepts. You may also substantiate with the additional measurement world other than following tables and figures (8+2=10)

Figure 1 : Mean - Amount Involved, Amount Recovered and Number of Cases Referred in Lok Adalat, DRTs and SARFAESI



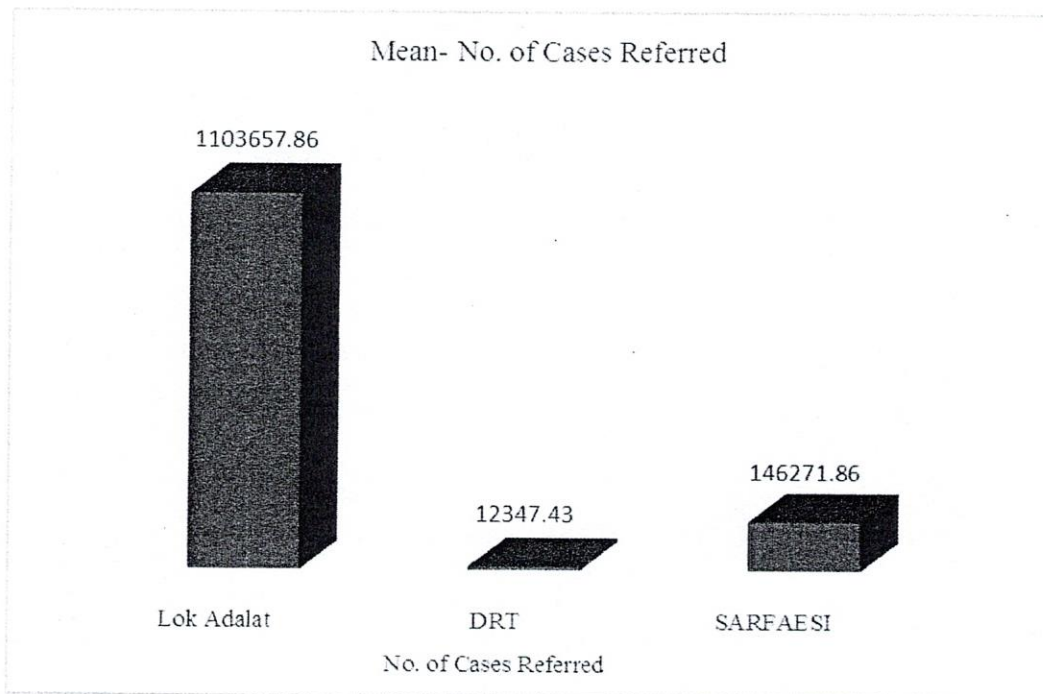


Table 1: Summary Statistics of Disputes under the IBC

Status of the application/Type of Creditor	FCs	OCs	CDs	Total^\$
Withdrawn under Rule 8 (Stage 1)	NA	NA	NA	16000 (79.97%)**
Withdrawn under Rule 11* (Stage 1)	124	343	6	473 (2.36%)**
Closure by withdrawal under Sec 12A (Stage 2)	88	198	5	291 (1.45%)**
Under CIRP (disposed + under adjudication)#	1074	1038	107	2219(11.09%)**
Commencement of Liquidation	444	438	143	1025 (5.12%)**
Total Admitted	-	-	-	4008 (20%)**
All types	-	-	-	20008 (100%)

Source: Computations based on data from IBBI reports and official statements.

\$ Computations based on data from IBC website and official statements.

*Referred to as 'Closure by Appeal/Review/Settled' in the IBC data.

** Figures in brackets are % of the total number of cases filed.

Approval of Resolution Plan + Ongoing CIRP

Table 2 : Recovery rates under CIRPs – Resolutions and Liquidation

Outcome	Description	No. of CIRPs initiated by			
		FCs	OCs	CDs	Total
CIRPs yielding Resolution Plans	Realization by FCs as % of their claims	46.84	21.8	25.30	43.56
	Average time taken for Closure for CIRP	444	406	443	433
CIRPs yielding Liquidation	Liquidation value as % of claims	6.35	9.19	9.89	7.20
	Avg time taken for closure of CIRP	336	304	306	318

Source: Computations based on data from IBBI reports.

- b) With the help of the following information, calculate Capital Adequacy Ratio (CAR). Assume Bank X has 3 crores in tier one capital and 2 crores in tier two capital. It also has five loans/assets and their assigned risk weight are as follows:

Bank X (Balance Sheet)	Exposure	Risk Weight
Government Treasury held as an asset	60 crores	0%
Loans to Corporates	40 crores	10%
Loans to Small Businesses	80 crores	50%
Loans to Prime lenders	200 crores	5%
Guarantees and other non-balance sheet exposures	6 crores	100%

- Q.2 a) In the Money Multiplier process: Currency deposit ratio (c) = 0.5, required deposit ratio (r) = 0.1 and the government purchases 75 crores of government securities from a commercial bank (High powered money), then: How much of credit creation will be done by banks (bank increasing the money supply)? Assuming you deposit 75 crores in SBI bank, what will be the credit creation in that situation? Discuss the application of the High-powered money and money multiplier process in the real world. (5x2=10)
- b) Elucidate the conceptual framework of 'money as debt' from the domestic and international levels. Discuss the appropriate monetary system as an alternative to

'Money as Debt'. You are required to apply basic concepts of money and banking in the above stated phenomenon.

- Q.3 a) On 01 November 2022, an investor 'sell' one contract of NDTV Futures at strike price (offer price) = 330, lot size = 1000 and margin requirement = 33,000 (10 % of total outstanding). Your stop-loss buy price is 350. On the closing day, it increased to 370. (3+3+4=10)

What will be the clearing settlement with regard to gain/loss for this position? What is the importance of margin money in trading and how is it measured? Also, discuss the underlying concepts of the above phenomenon.

- b) An investor buys on contract (lot size 100) of Nifty near-month 'call' for 100 each. The strike price is 5000. The premium paid by you will be 10,000 (100x100). At expiration, Nifty decreases to 4600, then what will be the clearing settlement with regard to gain/loss of this position at the time of the expiration date? Discuss the relevant concepts of derivative instruments based on the above example.
- c) Describe the concepts of Speculation, Investment, Hedging and Interest Rate Swap with examples.
- Q.4 a) Discuss the issues and challenges of allocative inefficiency of Special Drawing Rights (SDRs) in International Economic Law. Also, discuss the subject matters of influential countries dominating with regards to major decisions of IMF's function and governance. What restructuring do you propose in SDRs for inclusive International Economic Order? (5x2=10)
- b) Discuss how the Global Financial Regulatory System (GFRS) significantly encouraged Global Financial Integration (GFI). Why do even non-member jurisdictions voluntarily implement micro and macro-prudential regulations in the GFRS? Discuss as to why the global financial regulatory mechanism enforcement must switch gradually from flexibility (soft law) to rigidity (hard law).
- Q.5 a) Fiscal Federalism supports the states in implementing directive principles of state policy (DPSP) or good governance in the true sense. Discuss Fiscal Federalism based on the bottom-to-top approach, where states get more financial autonomy and independence. You must apply a public choice approach and finance commission recommendation to support your arguments. (7+ 2+ 1=10)
- b) Explain the fiscal efficiency of an economy based on the following three situations:
 Situation (i) When Fiscal Deficit = 3 and Revenue Deficit (RD) = 0 %
 Situation (ii) When Fiscal Deficit = 3 and Revenue Deficit (RD) = 3 %
 Situation (iii) When Fiscal Deficit = 3 and Revenue Surplus (RS) = 1 %
 From the above three situations, which one is good for the economy? Explain.
- c) Explain whether the Indian Finance Commission is a quasi-judicial body.
- Q.6 a) Suppose you want to purchase shares of HDFC Bank Ltd at 615, which is currently getting traded at 710 and the limit order is set at 615. This price can go either up or down but as soon as the stock trades at 615, the order is executed and you can buy at the predetermined price. Once the stock is purchased at 615 and if you decide to sell the same when once the price reaches 810, a new limit order has (6+4=10)

been set. You set the trailing stop-loss order at 550. If the price falls from 615 but less than 550 and the price increases but less than 810, the order is not active and the new target price has to be set. It should also be noted that if the price of the stock does not reach the limit price and stop-loss order price, the trade will not get executed.

Given the above phenomenon, describe the different types of relevant concepts of trading. Also, describe the concepts you learnt in the Moneybhai Game (money control) in cash and intra-day segments.

- b) Discuss the framework of money market instruments: Money Market Mutual Funds (MMMFs), SBI DFHI, Commercial Papers and Collateralized Borrowing and Lending Obligation (CBLO). You have to emphasize the interaction of borrowers (demand side) and lenders (supply side) in the stated money market instruments.
