GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR

Course: **Financial Institutions and Markets**

Semester- VI (Batch: 2020-25)

<u>End Semester Examination: May 2023</u>

Date: 12th May, 2023
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: 15 Marks: 800-1000 words, 10 Marks: 600-800 words, 5 Marks:300-500 words, 2 Marks: Approx.150 words.

Marks

Q.1 There is no unique definition of 'money', either as a concept in economic theory or as measured in practice. Money is a means of payment and thus a lubricant that facilitates exchange. Money also acts as a store of value and a unit of account. (15)

In the real world, however, money provides monetary services along with tangible remuneration. It is for this reason that money has to have relationship with the activities that economic entities pursue. Money can, therefore, be defined for policy purposes as the set of liquid financial assets, the variation in the stock of which could impact on aggregate economic activity.

As a statistical concept, money could include certain liquid liabilities of a particular set of financial intermediaries or other issuers.

Therefore, like other countries, a range of monetary and liquidity measures are taken by the Reserve Bank of India (RBI) in India.

Critically examine the monetary and liquidity measures taken by the RBI during the last 2-3 years in response to the present global economic situation and also give your opinion on the sufficiency of the measures. Substantiate your arguments with data and the facts.

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 future development of the Indian Economy? Substantiate your arguments with data wherever possible.

Q.2 Development of an economy requires its financial system to be developed. Development of financial system may be defined as the development of the size, efficiency and stability of financial markets, instruments and institutions along with increased access to the financial markets that can have multiple advantages for the economy. (10)

And the development of financial sector happens in the process of founding and growth of institutions, instruments and markets that sustain the huge investments and growth which help in reducing poverty. Accordingly, financial development gives better information about possible profitable investments and promotes optimum allocation of capital. In other words, the emergence of financial institutions helps in curtailing cost of acquiring information and effectively implements contracts and executes transactions. Also, the expanding financial access inculcates dynamic efficiency in the system by bringing about a structural change through innovation and welfare gain to the entire economy.

Discuss the indicators of financial development explaining them in brief.

Q.3 Write a note on 'Depositories' and 'Depository Participants (DPs)', their necessity and functions. (5)

OR

Write a note on 'Money market instruments in India'.

Q.4 Discuss about transaction, clearing and settlement mechanism in the secondary market highlighting the key roles played by each capital market institution and SEBI. (10)

Q.5 Write notes on the following with relevant examples (**any five**); (2x5= 10)

a) Index Futures
b) Free Float Weighted Market Capitalization Method
c) Hedging using futures
d) Book building mechanism
e) Limit and stop loss orders
f) Global Depository Receipts

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