AS-764

M.B.A. (Semester—III) Examination

INDIAN FINANCIAL SYSTEM

Paper–MBA/3101/F

Time : Three Hours] [Maximum Marks : 70

Note :—(1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

SECTION–A

1. (a) Discuss the evolution and composition of the foreign exchange market in India with a brief description on the participating players therein. 14

OR

(b) Discuss the similarities and distinctions between the capital market and money market. Also explain the defects of Indian Money Market. 14

SECTION–B

2. (a) Explain briefly the structure of Indian Financial System. 7

(b) As an Investment Advisor, what features would you suggest to be included in the investment bunch of client ? Explain these features briefly. 7

OR

(c) Define the financial system and discuss the important functions performed by it. 7

(d) 'Bank deposits are, of late, losing investor's charm'. Do you agree ? If so, give the reasons. Also explain the changing composition of household savings and investment. 7

3. (a) Who are the participants of OTCEI Market ? Explain. 7

(b) "With a view to regulate the capital market and to curb unfair practices on stock exchanges, SEBI was established." Explain the role and functions of SEBI in the context of above statement. 7

OR

(c) Explain the role of NSE in the development of Indian Economy. 7

(d) There are many people who invest in stock market for long term or short term. But majority of investors don't know about the stock market operations. Do you think that it is necessary for investors to know how does stock market work ? Justify. 7

SECTION–C

4. (a) Discuss the different types of Treasury Bills and the major agencies in the Secondary Market. 7

(b) Explain how investor's preference for commercial paper change during a recession. How should this reaction affect the difference between commercial paper rates and T-bills rates during recessionary periods ? 7

OR

(c) What is 'certificate of deposits' ? What are its features ? Explain. 7

(d) 'Introduction of 182-day treasury bill market widens the short term money market and provides more outlets for temporary surplus funds.' Comment. 7

SECTION–D

5. In February 2004, RBI unveiled the draft guidelines for ownership and governance of private sector banks in India. A number of reactions were received from the industry in response to the draft. A leading industry chamber, FICCI, opposed the RBI proposal for limiting ownership in such banks by a single entity to only 10%. According to the chamber, the limit will create a capital shortage and discourage consolidation among banks. In a letter to RBI the Secretary General of FICCI pointed out that the guidelines will discourage FDI, FII and private equity investments in Private Banks. The chamber expressed the opinion that the presence of strong and well-capitalized investors would reduce the exposure of the sector to systematic risk. It also said that distressed banks might be severely affected since such banks might not be able to raise capital for recapitalization. In summary, the response of FICCI said that the draft policy could "Well arrest the momentum of positive change to the detriment of the banking sector". Private banks and equity funds also expressed reservations about the guidelines. However, the guidelines were finalized by the RBI after a year of the issue of the draft guidelines with little change.

The finalized guidelines for ownership and governance of private banks issued on February 28, 2005 state that "banks are 'special' as they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but they also leverage such funds through credit creation". As a result, an important objective of the guidelines is to ensure that shareholding in banks is well diversified. Thus, the RBI, will ensure that no single entity or group of related entities has shareholding or control, directly or indirectly, in any bank in excess of 10% of the paid-up capital of the private sector bank. As per existing policy (applicable to all banks) the guidelines provide large industrial houses to acquire, by way of strategic investment, shares not exceeding 10% of the paid-up capital of the bank subject to RBI's prior approval.

(a) Comment on the concerns raised by the FICCI about RBI's Policy. Do you think it will be difficult for private banks to find investors in view of the RBI guidelines ? 7

(b) Do you agree that banks are special ? Why or why not ? 7