PRE MID TERM EXAM, 2025-26
FINANCIAL MARKET MANAGEMENT 805

Class: XI **Marking Scheme** **Time: 1hr**
Date: 4.08.25 **Max Marks: 25**
Admission no: **Roll no:**

SECTION-A

1. Which of these is a long term investment? 1
a) Money Market Funds
b) Public Provident Funds
c) Both a & b
d) None of the above
Ans. b) Public Provident Funds
2. Fixed Deposit with Bank is a ________? 1
a) Short term investment
b) Long term investment
c) Both a & b
d) None of the above
Ans. c) Both a & b
3. **Assertion (A):** Business environment includes both internal and external forces that influence business operations.
Reason (R): Only external factors like political and legal changes are considered part of the business environment. 1
a) Both A and R are true, and R is the correct explanation of A
b) Both A and R are true, but R is not the correct explanation of A
c) A is true, but R is false
d) A is false, but R is true
Ans. c) A is true, but R is false
4. **Assertion (A):** A positive business ambience promotes entrepreneurship and investment.
Reason (R): Business ambience includes government policies, social attitudes, and economic conditions. 1
a) Both A and R are true, and R is the correct explanation of A
b) Both A and R are true, but R is not the correct explanation of A
c) A is true, but R is false
d) A is false, but R is true
Ans. a) Both A and R are true, and R is the correct explanation of A
5. **Assertion (A):** Equity shareholders are the real owners of a company. 1
Reason (R): They receive fixed interest from the company.
a) Both A and R are true, and R is the correct explanation of A
b) Both A and R are true, but R is not the correct explanation of A
c) A is true, but R is false
d) A is false, but R is true

Ans. c) A is true, but R is false

SECTION –B

6. Write in brief about the process of investing. 2

Ans. The process of investing involves the following steps:

1. Setting Investment Goals: Decide the purpose (e.g., saving for retirement, education, etc.) and time frame of the investment.
2. Selecting Investment Options: Choose suitable avenues like mutual funds, stocks, fixed deposits, etc., based on risk and return preferences.
3. Analyzing and Investing: Assess the risk, return, and market conditions, then invest the desired amount.
4. Monitoring and Review: Regularly track the performance and make changes if necessary.

7. Explain the relation between equity and ownership 2

Ans. Equity represents ownership in a company. When a person buys equity shares of a company, they become an equity shareholder, which means they own a part of the company. These shareholders have the right to vote, share in profits (dividends), and claim on the company's assets after debts are paid if the company is liquidated.

In simple terms, more equity = more ownership in the company. Therefore, equity is a direct measure of ownership in a business.

8. Explain the concept of dematerialized securities. 2

Ans. Dematerialized securities are financial securities (like shares, bonds, etc.) held in electronic form instead of physical paper certificates. This process is called dematerialization.

Investors open a Demat account with a depository participant (DP) to hold and trade these securities. It makes buying, selling, and transferring securities faster, safer, and more convenient.

9. What type of asset are the commodities considered? 2

Ans. Real assets are physical or tangible assets that have intrinsic value due to their substance and properties.

Commodities like gold, silver, crude oil, natural gas, agricultural products (like wheat, rice), etc., are tangible and can be physically traded.

SECTION C

10. As an investor, how would you apply the golden rule to make smart financial decisions and minimize risks? 3

Ans. Diversification: By not putting all your money in one type of investment, you spread the risk. For example, invest in a mix of stocks, mutual funds, fixed deposits, and gold.

Understanding Risk and Return: Choose investments based on your risk tolerance and financial goals. High returns usually come with higher risk, so balance your choices wisely.

Regular Review: Monitor your investments regularly and make adjustments based on market performance or life changes, ensuring your portfolio remains balanced and goal-oriented.

11. Which factors determine the interest rate? 3

Ans. Inflation Rate:

Lenders charge higher interest rates when inflation is high to maintain the real value of their returns.

Monetary Policy:
The central bank (like RBI) adjusts key policy rates (e.g., repo rate) to control money supply, which directly influences market interest rates.

Demand and Supply of Money:
If the demand for loans increases and the supply of money is limited, interest rates tend to rise, and vice versa.

SECTION D

12. How would you use different instruments to control markets and finance in order to maintain economic stability? Explain their roles with examples. 6

Ans. a) Repo Rate:
This is the rate at which the central bank lends money to commercial banks.
- Role: Increasing repo rate makes borrowing costlier, which reduces money supply and controls inflation.
- Example: During high inflation, RBI may raise the repo rate to curb spending.

b) Cash Reserve Ratio (CRR):
The percentage of a bank's total deposits that must be kept with the RBI.
- Role: Higher CRR reduces the amount of money banks can lend, thus reducing liquidity.
- Example: RBI increases CRR during inflationary periods to reduce credit flow.

c) Open Market Operations (OMO):
Buying and selling of government securities by the RBI.
- Role: Selling securities pulls money out of the economy; buying injects money.
- Example: To boost the economy during a slowdown, RBI may buy securities to increase liquidity.

2. Fiscal Instruments *(Used by the Government)*
a) Taxation Policy:
- Role: Increasing taxes reduces disposable income and controls inflation; reducing taxes boosts spending in a slowdown.
- Example: Reduction in GST rates to encourage consumer spending during economic downturns.

b) Public Expenditure:
- Role: Government increases spending on infrastructure, employment schemes, etc., to stimulate demand.
- Example: Launching schemes like MNREGA to boost rural income and consumption.

c) Subsidies and Incentives:
- Role: Targeted subsidies reduce costs and support essential sectors during crises.
- Example: Fertilizer subsidies to support agriculture during inflation.