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14 (ECO-3) 3046 (FS)

2022

ECONOMICS

Paper : ECO-3046

(Financial System)

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Answer the following within 50 words each :
5×4=20

- (a) Distinguish between IPO and FPO in the capital market.
- (b) What do you understand by demutualization of stock exchange?
- (c) State how risks can be managed in a financial system.
- (d) A scheme offers a 12% interest per annum on deposits. Calculate the effective Interest Rates (EIRs) if compounding is done quarterly and monthly.

Contd.

2. Answer **any three** within 150 words each :

10×3=30

(a) Describe the major components of a financial system.

(b) Differentiate between ordinary annuity and annuity due. What is the value of an investment that provides cash flows of Rs. 5,000 at the beginning of each year for the next 5 years if the discount rate is 7% ?

3+7=10

(c) Explain how new issues are priced under book building method. What is the role of green shoe option in the process ?

7+3=10

(d) What are sensitive indexes? Explain how they are calculated.

3+7=10

(e) Why is it more difficult to value stocks as compared to bonds? Explain how stocks are valued.

2+8=10

3. Answer **any two** of the following : 15×2=30

(a) What are the rationales for using mutual funds as a financial asset? Explain how they can be functionally classified. What is the significance of NPV in the context of mutual funds?

5+7+3=15

- (b) Explain how the RBI uses the quantitative tools of monetary policy to control the supply of money in the economy.
- (c) How do banks earn profits? Discuss why banks need to have adequate capital reserves. What is meant by D-SIB? 5+6+4=15
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