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14 (ECO-3) 3046

2023

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) Discuss the rationale and benefit of de-mutualization of Stock Exchange.
 - (b) Explain the purpose of Preferential Issue in the Primary Capital Market.
 - (c) Distinguish between primary securities and secondary securities.

Contd.

(d) What is the amount you need to deposit today if you want to have Rs 5,00,000, 4 years from today grown from a sum deposited in an account that pays 6% interest compounded monthly ?

2. Answer **any three** within **150 words** each :
10×3=30

(a) Discuss the functions of a financial system. Differentiate between a formal and an informal financial system.

8+2=10

(b) Describe how the RBI uses the tools of CRR and the repo rate to control inflation in the economy. What is meant by flexible inflation targeting ?

8+2=10

(c) Explain why equities are more difficult to value than debt. Illustrate how Growth Stocks are valued.

2+8=10

(d) Describe the risks that financial derivatives seek to eliminate. Distinguish between Forwards and Futures.

5+5=10

(e) Explain the Book Building Process. In this context rationalize the concept of Green Shoe Option.

7+3=10

3. Answer **any two** of the following :

$$15 \times 2 = 30$$

- (a) What is the benefit of Mutual Funds ? Discuss the various types of Mutual Funds in terms of their classification.

$$5 + 10 = 15$$

- (b) What is meant by NPA ? Discuss the various bank monitoring measures undertaken by regulators to prevent bank failures.

$$3 + 12 = 15$$

- (c) (A) An individual has Rs 80,000 to invest today, and in 5 years would like the investment to be worth Rs 1,60,000. What interest rate would satisfy the individual's goal ?

5

- (B) An individual wants to deposit Rs 25,000 in 1 year, Rs 30,000 in 2 years, and Rs 35,000 in 3 years. If the interest earned is 8%, then

(i) what is the value of the investments today ?

(ii) what will be the balance in the account after 4 years ?

$$5 + 5 = 10$$