CBSE CLASS X

Introduction to Financial Markets (405)

ANSWER KEY

From previous CBSE Board Exam questions

Code: 00KXUY	Questions: 10	Maximum Marks: 18	Generated: 2026-06-15 13:05

SELECTIONS USED

Source	Previous-year board
Subject	Financial Market Management
Lessons	Securities
Year	2023-2026
Questions selected	10

Composition — Types: 11 MCQ · 2 Short · 1 Long · 1 competency

Q1. § What is Investment? § What is a Mutual Fund? **[1]**

A part of the profit is retained by the company for meeting fund requirements in future.

(a) Dividend
(b) Interest
(c) Reserves and Surplus
(d) Revenue

Previously asked in: 2023 92 Q5 (vi)

◆ **Investment Basics** | Reserves and Surplus | Retained Earnings / Ploughing Back of Profits

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Model Answer

(c) Reserves and Surplus — A part of the profit retained by the company for meeting future fund requirements is called **Reserves and Surplus**.

Explanation

The key phrase is "retained by the company for future fund requirements," which directly defines Reserves and Surplus. Dividend is profit distributed to shareholders; Interest is paid on borrowed funds; Revenue is income earned — none of these involve retention of profit for future use.

Q2. § Which are the securities one can invest in? § Unit Code: 3 — Unit Title: Primary Market **[1]**

Companies may issue shares to their shareholders without charge, proportionate to the number of shares owned by each shareholder. Identify the share.

(A) Equity share
(B) Rights issue
(C) Preference share
(D) Bonus share

Previously asked in: 2026 92 Q4 (iii)

◆ **Securities** 3.1 Issue Of Shares

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Model Answer

(D) Bonus share — Shares issued by a company to existing shareholders free of charge, in proportion to the number of shares already held, are called **Bonus shares**.

Explanation

The key phrase "without charge, proportionate to shares owned" defines a bonus issue (bonus shares). Rights issue involves shareholders buying additional shares at a discount, not for free. Equity and preference shares are types of shares, not corporate actions matching this description. Examiners look for the exact term "Bonus share."

Q3. § What is meant by 'Securities'? § Which are the securities one can invest in? § 2.2 Participants **[1]**

Which of the following is not a security ?

(A) Shares
(B) Debentures
(C) Bonds
(D) Fixed Deposit Receipts

Previously asked in: 2025 92 Q2 (ii)

◆ **Securities** Definition and Types of Securities

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Model Answer

(D) Fixed Deposit Receipts

Fixed Deposit Receipts are not securities. As per SCRA, 1956, securities include shares, bonds, debentures, government securities, derivatives, and units of mutual funds — but not FDRs.

Explanation

The SCRA, 1956 definition lists shares, bonds, scrips, stocks, government securities, derivatives, units of collective investment schemes, etc. as securities. Fixed Deposit Receipts (FDRs) are banking instruments issued by banks/NBFCs and are **not** listed under securities. Shares, debentures, and bonds are explicitly covered. Examiners expect direct identification of FDR as the odd one out.

Q4. § What is the function of Securities Market? § Which are the securities one can invest in? **[1]**

Companies whose potential for growth in sales and earnings are excellent, are growing faster than other companies in the market or other stocks in the same industry are called :

(A) Value Stock
(B) Common Stock
(C) Growth Stock
(D) Debt Instrument

Previously asked in: 2025 92 Q2 (iv)

◆ **Securities** Growth Stocks

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Model Answer

(C) Growth Stock — Companies with excellent potential for growth in sales and earnings, growing faster than other companies or stocks in the same industry, are called **Growth Stocks**.

Explanation

- The question describes a specific category of stocks defined by high growth potential in sales and earnings relative to the market or industry peers — this is the textbook definition of a **Growth Stock**.
- **Value Stock** refers to undervalued stocks; **Common Stock** is another term for equity shares; **Debt Instrument** involves borrowing (e.g., bonds/debentures) — all are clearly different concepts.
- In MCQs, match the key phrase *"growing faster than other companies/industry"* directly to the term **Growth Stock**.

Q5. § What is the function of Securities Market? § Which are the securities one can invest in? **[1]**

A bond giving investor the option to convert the bond into equity at a fixed conversion price is called

(a) Convertible Bond
(b) Zero Coupon Bond
(c) Treasury Bills
(d) Commercial Paper

Previously asked in: 2023 92 Q5 (iii)

◆ **Securities** Convertible Bond

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Model Answer

(a) Convertible Bond — A bond that gives the investor the option to convert it into equity shares at a fixed conversion price is called a **Convertible Bond**.

Explanation

A convertible bond combines features of both debt and equity. The key phrase to remember is "option to convert into equity at a fixed conversion price," which uniquely identifies a convertible bond. The other options — Zero Coupon Bond (no periodic interest), Treasury Bills (short-term government instruments), and Commercial Paper (short-term corporate debt) — do not carry any conversion feature. Examiners expect you to directly identify the correct term.

Q6. § Which are the securities one can invest in? **[4]**

Differentiate between equity shareholders and preference shareholders.

Previously asked in: 2023 92 Q21

◆ **Securities** Equity Shareholders vs Preference Shareholders

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Model Answer

Basis	Equity Shareholders	Preference Shareholders
Dividend	Receive dividend after preference shareholders; rate is not fixed	Receive fixed rate of dividend on priority
Repayment	Capital repaid last, after preference shareholders	Capital repaid before equity shareholders at winding up
Voting Rights	Have full voting rights in company matters	Generally do not have voting rights
Risk	Bear higher risk	Bear comparatively lower risk

Equity shareholders are the real owners of the company and bear maximum risk, while preference shareholders enjoy preferential treatment in dividend payment and capital repayment but have limited control over the company.

Source: Chapter 2, Securities Market

Explanation

- CBSE expects a **tabular format** for "differentiate between" questions — it earns marks quickly and is easy to read.
- Four clear points of difference = 4 marks. Each row should have a clear basis, not just vague statements.
- Key terms: **fixed dividend, preferential rights, voting rights, winding up** — examiners look for these specific words.
- Keep the concluding line brief; it adds context without padding.

Q7. § Which are the securities one can invest in? **[1]**

Owners of these kinds of shares are entitled to a fixed dividend or dividend calculated at a fixed rate to be paid regularly before the dividend can be paid in respect of equity shares. They also enjoy priority over the equity shareholders in payment of surplus.

(a) Preference shares
(b) Bonus share
(c) Right share
(d) Equity share

Previously asked in: 2023 92 Q4 (iii)

◆ **Securities** Preference Shares – Features and Rights

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Model Answer

(a) Preference shares — Their owners receive a fixed dividend before equity shareholders and have priority over equity shareholders in payment of surplus.

Explanation

The question describes two key features: fixed/priority dividend and priority in surplus payment — both are classic characteristics of **preference shares**. Eliminate other options: bonus shares are free shares issued to existing shareholders, right shares are offered to existing shareholders at a discount, and equity shares carry variable dividends with no such priority.

Q8. § Which are the securities one can invest in? **[4]**

"When a company declares a stock split, the number of shares of that company increases, but the market cap remains the same. Existing shares split, but the underlying value remains the same." Describe stock split and split of shares by a company.

Previously asked in: 2023 92 Q20

◆ **Securities** Stock Split and Split of Shares

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Model Answer

Stock Split is a corporate action in which a company divides its existing shares into multiple shares. For example, in a 2-for-1 split, each existing share becomes two shares, and the share price is halved proportionately.

Key features of a stock split:

- The **total number of shares increases**, but the **market capitalisation remains the same**.
- The **face value (par value)** of each share decreases proportionately.
- Existing shareholders hold more shares, but the **underlying value of their investment does not change**.
- Companies typically do this to make shares more **affordable and liquid** for small investors, thereby increasing market participation.

Example: If a company has 1,00,000 shares at ₹100 each (market cap = ₹1 crore), after a 2-for-1 split, it has 2,00,000 shares at ₹50 each (market cap still = ₹1 crore).

Explanation

- This is a **competency-based question** testing application of financial concepts; the examiner expects you to define stock split and explain its mechanics with at least one feature or example.
- Key examiner checklist: definition ✓, number of shares increases ✓, market cap unchanged ✓, face value/price adjusts proportionately ✓.
- The source passages cover securities markets broadly but do not detail stock splits — so apply your standard Class 10 Financial Literacy/Markets knowledge here.
- Avoid writing an essay; 4 crisp points + a brief example is ideal for 4 marks.

Q9. § What is the function of Securities Market? § Which are the securities one can invest in? § 2.2 Participants **[1]**

__________ are interconnected with investments via a diverse array of intermediaries that employ various financial instruments known as 'Securities'.

(A) Savings
(B) Interest
(C) Income
(D) Profit

Previously asked in: 2026 92 Q2 (ii)

◆ **Securities** Savings and Investments linkage through Securities

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Model Answer

(A) Savings

Savings are interconnected with investments via a diverse array of intermediaries that employ various financial instruments known as 'Securities'.

Explanation

The statement describes how savings flow into investments through financial intermediaries (like mutual funds, banks) using securities (shares, bonds, debentures). The correct fill is **Savings**, as it is savings that get channelled into investments through these intermediaries.

Q10. **[1]**

Are bonds assessed based on their credit quality ?

(A) No, bonds are assessed based on their credit quality.
(B) Yes, bonds are assessed based on their credit quality.
(C) No, most bond and debenture issuances are rated by specialized credit rating agencies.
(D) Yes, RBI is an identity which assesses the bond and debenture issuances.

Previously asked in: 2026 92 Q5 (iii)

◆ **Securities** Credit Rating Agencies in India

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Model Answer

(B) Yes, bonds are assessed based on their credit quality.

Most Bond/Debenture issues are rated by specialised credit rating agencies such as CRISIL, CARE, ICRA and Fitch. The yield on a bond varies inversely with its credit rating.

Source: Chapter 4, Section 4.2.2 – Debt Investment

Explanation

The passage explicitly states that most bond/debenture issues **are** rated by specialised credit rating agencies, confirming that bonds **are** assessed based on credit quality. Option (B) is correct. Option (C) is a contradictory statement (says "No" but then gives a correct fact). Option (D) incorrectly credits RBI. Remember: safer bonds carry **lower** interest rates — yield and credit rating are **inversely** related.

Q11. § 2.1 Regulator **[1]**

Read the following statements Assertion (A) and Reason (R) and choose the correct option from those given below :
Assertion (A) : Equity shareholders are supposed to be the owners of the company.
Reason (R) : Equity shareholders have a right to vote in the Annual General Meeting for passing any resolution.
Options :

(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.

Previously asked in: 2025 92 Q4 (vi)

◆ **Securities** 4.2.1 Equity Investment

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Model Answer

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

Equity shareholders are owners of the company, and their voting rights in the AGM to pass resolutions is precisely what establishes this ownership status.

Explanation

The right to vote in the AGM is the key feature that distinguishes equity shareholders as owners — they can influence company decisions. This voting right directly explains *why* they are considered owners, making (R) the correct explanation of (A). Examiners expect students to identify the logical link between the assertion and reason, not just whether both are true.

Q12. **[2]**

What does maturity of a 'Bond' refer to ?

Previously asked in: 2025 92 Q12

◆ **Securities** 4.2.2 Debt Investment

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Model Answer

Maturity of a bond refers to the date on which the bond's life ends and the issuer repays the principal (face value) amount to the bondholder. It is the predetermined date when the loan agreement between the issuer and the investor expires and the final payment is made.

Explanation

- Examiners expect two key points: (1) it is a **specific date/period** and (2) the **principal is repaid** on that date.
- Avoid confusing maturity with interest payment (coupon) — maturity is specifically about repayment of the original borrowed amount.
- Keep the answer factual and direct; no examples are needed for 2 marks.

Q13. § 2.2 Participants **[2]**

XYZ Ltd. is a mid-sized manufacturing company seeking to raise funds for operational expansion. The company is considering issuing debt instruments to acquire the necessary capital. Their financial advisor has recommended the option of issuing debentures or commercial paper.
In the context of paragraph, what is a debenture ?

Previously asked in: 2026 92 Q12

◆ **Securities** 4.2.2 Debt Investment

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Model Answer

A **debenture** is a debt instrument issued by a company to raise funds from the public. It is a marketable security through which the issuer (company) borrows money from investors and promises to repay the principal along with interest. Debentures are listed under 'Securities' as per the SCRA, 1956.

Source: What is the function of Securities Market?, Chapter 2

Explanation

- The passage mentions debentures as instruments traded in the securities market where buyers and sellers transact.
- SCRA, 1956 classifies debentures under "securities," which is the legal basis for the definition.
- For a 2-mark answer, mention: (1) it is a debt instrument, and (2) it is issued by a company to raise funds/capital. Mentioning the SCRA reference adds precision and earns full marks.

Q14. § What are the benefits of participation in a depository? § Do dematerialised shares have distinctive numbers? **[1]**

Do stock splits, corporate actions have an effect on corresponding shares held by an investor ?

(A) No change in investors' holdings.
(B) Yes, the number of shares held by investors increased to double.
(C) Yes, the number of shares held by investors increased in proportionate ratio in which a stock spilt.
(D) Yes, the number of shares held by investors decreased in proportionate ratio in which a stock split.

Previously asked in: 2026 92 Q4 (v)

◆ **Depository** Stock Split and Split of Shares

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Model Answer

(C) Yes, the number of shares held by investors increased in proportionate ratio in which a stock split.

In a stock split, existing shares are divided into smaller denominations, increasing the number of shares held by investors in proportion to the split ratio (e.g., 4-for-1 split quadruples the shares held).

Explanation

The passage clearly states that a stock split increases the number of shares outstanding in proportion to the split ratio (e.g., 2-for-1, 4-for-1). Option (B) is a trap — it says "double," which is only true for a 2-for-1 split, not all splits. Option (C) is the correct general answer. Note: the *value* of holdings remains unchanged after a split; only the number of shares increases proportionately.

Q15. **[1]**

"CRISIL is a credit rating agency in India". Which of the following is not a credit rating agency in India:

(a) CARE
(b) ICRA
(c) FITCH
(d) RBI

Previously asked in: 2023 92 Q2 (iv)

◆ **Miscellaneous** Credit Rating Agencies in India

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Model Answer

(d) RBI

RBI (Reserve Bank of India) is the central bank and a market regulator, not a credit rating agency. CARE, ICRA, and FITCH are all credit rating agencies operating in India.

Explanation

- CRISIL, CARE, ICRA, and FITCH are all credit rating agencies in India.
- RBI is the central bank/regulator of India's monetary system and securities market — it does **not** rate credit.
- In MCQs like this, eliminate options you recognise as credit rating agencies; what remains is the answer.

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