CBSE CLASS X

Introduction to Financial Markets (405)

ANSWER KEY

From previous CBSE Board Exam questions

Code: FVNKB6	Questions: 10	Maximum Marks: 18	Generated: 2026-06-15 13:05

SELECTIONS USED

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

Composition — Types: 3 Short · 2 Very short · 2 Long · 2 MCQ · 1 competency

Q1. § What is the Regulatory Body for Mutual Funds? **[4]**

"Every mutual fund investor enjoys certain rights under SEBI's laws and rules and fund houses are bound to extend those rights to their investors." Describe any four rights that are available to a mutual fund holder as per SEBI regulations on Mutual Fund.

Previously asked in: 2023 92 Q19

◆ **Mutual Funds** Rights of Mutual Fund Investors under SEBI Regulations

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Model Answer

As per SEBI Regulations on Mutual Funds, an investor is entitled to the following rights:

1. **Unit Certificates:** Receive unit certificates or statements of accounts confirming title within **6 weeks** from the date the request is received by the Mutual Fund.
1. **Right to Information:** Receive information about the investment policies, investment objectives, financial position and general affairs of the scheme.
1. **Timely Returns:** Receive dividend within **30 days** of declaration and redemption/repurchase proceeds within **10 days** from the date of redemption.
1. **Disclosure of Adverse Information:** Trustees are bound to disclose any information that may have an **adverse bearing** on investors' investments.

Source: Chapter 7 — Rights of a Mutual Fund Holder

Explanation

- This is a competency-based question, but the answer is directly drawn from the SEBI regulations listed in the chapter — so quote the specific time limits (6 weeks, 30 days, 10 days) as examiners look for these precise figures.
- Pick any **four** from the seven listed rights; the four above are the most commonly tested.
- Avoid writing about benefits of mutual funds — the question specifically asks about **rights under SEBI regulations**.
- Each point should be crisp — one line with a bold heading earns full credit in board exams.

Q2. § What is the Regulatory Body for Mutual Funds? **[1]**

Name the regulatory body for Mutual Funds.

Previously asked in: 2023 92 Q8

◆ **Mutual Funds** Regulatory Body for Mutual Funds (SEBI)

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Model Answer

The regulatory body for Mutual Funds is the **Securities Exchange Board of India (SEBI)**. All mutual funds must get registered with SEBI.

Source: Chapter 7, "What is the Regulatory Body for Mutual Funds?"

Explanation

This is a direct one-line fact question. Just naming SEBI earns the mark, but expanding it slightly to "SEBI, and all mutual funds must register with it" shows completeness. Always write the full form — examiners expect it for 1-mark definitional answers.

Q3. § What are the benefits of investing in Mutual Funds? § Are there any risks involved in investing in Mutual Funds? **[4]**

Explain the various types of risk in investing in mutual fund.

Previously asked in: 2025 92 Q19

◆ **Mutual Funds** Types of Risk in Mutual Fund Investing

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Model Answer

Mutual Funds do not provide assured returns as they invest in shares, debentures, and bonds, all of which carry risk. The main types of risk are:

1. **Market Risk:** If overall stock or bond markets fall due to economic factors, the value of the fund's portfolio drops, affecting performance.
1. **Non-Market Risk:** Bad news about an individual company pulls down its stock price, negatively affecting fund holdings. Diversification helps reduce this risk.
1. **Interest Rate Risk:** Bond prices and interest rates move in opposite directions. When interest rates rise, bond prices fall, affecting the fund negatively.
1. **Credit Risk:** When funds invest in corporate bonds, the company may default on interest/principal payments, causing the bond value and NAV of the fund to fall.

Source: Chapter 7 — Are there any risks involved in investing in Mutual Funds?

Explanation

- This is a standard 4-mark question; examiners expect all **four types of risks** named and briefly explained — one point per mark.
- Always include the introductory line that mutual funds do not guarantee returns — it sets context and shows understanding.
- Avoid mixing up benefits with risks; keep each point crisp (1–2 lines each).
- Mentioning that diversification reduces non-market risk is a value-add detail that examiners appreciate.

Q4. § What are the benefits of investing in Mutual Funds? § What is Active Fund Management? § What is Passive Fund Management? **[1]**

Investment decisions in a mutual fund are made by fund managers who have the expertise, information and knowledge to make better decisions than what a typical individual investor may be able to make. Identify the advantage of investing in mutual fund in this statement.

(A) Diversification
(B) Liquidity
(C) Flexibility
(D) Professional Management

Previously asked in: 2025 92 Q2 (vi)

◆ **Mutual Funds** Advantages of Investing in Mutual Funds – Professional Management

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Model Answer

(D) Professional Management

The statement describes fund managers using their expertise, information, and knowledge to make investment decisions — this is the advantage of **Professional Management**.

Explanation

The passage under "Professional Fund Management" directly states that professionals with expertise and resources manage the fund and analyse markets to pick good investments. The other options — Diversification, Liquidity, and Flexibility — relate to different benefits not described in the statement.

Q5. § What is NAV? § What is a Fund Offer Document? § What is Active Fund Management? **[2]**

What is meant by 'Gilt Funds' ?

Previously asked in: 2023 92 Q14

◆ **Mutual Funds** Gilt Funds

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Model Answer

Gilt Funds are mutual funds that invest exclusively in Central and State Government securities. Since these are government-backed bonds, they provide a secured return and ensure safety of the principal amount. They are best suited for medium to long-term investors who are risk-averse.

Source: What are the different types of Mutual Funds?, Chapter 7

Explanation

- The examiner expects two key points: (1) what gilt funds invest in (government securities), and (2) their key features (secured return, principal safety, suited for risk-averse investors).
- Avoid confusing gilt funds with debt/income funds — gilt funds specifically invest in **government** securities only, not corporate bonds or debentures.
- Mentioning "Central and State Government securities" earns full credit; don't just write "government bonds" without this detail.

Q6. § What is NAV?

Net Asset Value

Previously asked in: 2023 92 Q19 (d)

◆ **Mutual Funds** Net Asset Value (NAV)

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Model Answer

Net Asset Value (NAV):

NAV or Net Asset Value is the cumulative market value of the assets of a mutual fund, net of its liabilities.

$$\text{NAV per unit} = \frac{\text{Net Value of Assets}}{\text{Number of Units Outstanding}}$$

Buying and selling into funds is done on the basis of NAV-related prices. As per SEBI regulations, the NAV of an **open-end scheme** must be disclosed on a **daily basis**, while the NAV of a **close-end scheme** must be disclosed at least on a **weekly basis**. NAV is required to be published in newspapers.

Source: Chapter 7, What is NAV?

Explanation

- Examiners expect the **definition**, the **formula**, and the **disclosure frequency** (daily for open-end; weekly for close-end) — these are the three scorable points in most NAV questions.
- Write the formula clearly; it shows conceptual understanding.
- "Net of liabilities" is a key phrase — don't omit it.
- If the question is 1 mark, give only the definition. For 2–3 marks, include the formula and disclosure norms.

Q7. § What are the different types of Mutual funds? **[1]**

_______ are specialised form of mutual funds that invest in extremely short-term fixed income instruments.

(a) Liquid Funds
(b) Public Provident Funds
(c) Growth Funds
(d) Debts Funds

Previously asked in: 2023 92 Q3 (i)

◆ **Mutual Funds** | Money Market Mutual Funds

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Model Answer

(a) Liquid Funds

Liquid Funds are specialised forms of mutual funds that invest in extremely short-term fixed income/money market instruments and provide easy liquidity.

Source: Chapter 7, Types of Mutual Funds

Explanation

The passage clearly states that **Liquid Funds/Money Market Funds** "invest in highly liquid money market instruments" with investment periods "as short as a day." Debt/Income Funds invest in fixed-income instruments but are medium-to-long-term, not extremely short-term — a common distractor. PPF is not a mutual fund at all. Always link "extremely short-term" to Liquid Funds in MCQs.

Q8. § What is Active Fund Management?

Active fund Management

Previously asked in: 2023 92 Q19 (a)

◆ **Mutual Funds** Active Fund Management

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Model Answer

Active Fund Management refers to a style of investment where the fund manager makes all investment decisions — deciding which company, instrument, or asset class to invest in — based on research, analysis, and market news. The fund actively buys and sells securities as market perceptions change.

Two investment styles used in active fund management:

1. **Growth Investing:** The fund manager identifies companies expected to give above-average earnings growth, anticipating higher stock prices in the future.

1. **Value Investing:** The fund manager buys companies believed to be currently undervalued in the market, expecting their true worth to be recognised eventually.

Source: Chapter 7 — What is Active Fund Management?

Explanation

- This is likely a 3-mark question, so two points + a definition is sufficient.
- Always name and explain **both** investment styles (Growth and Value) — examiners expect this.
- Avoid confusing active management with passive (index) management; the key differentiator is **fund manager discretion**.

Q9. § What is Active Fund Management? **[4]**

Explain two basic investment styles prevalent in active fund management.

Previously asked in: 2026 92 Q21

◆ **Mutual Funds** | Investment Styles in Active Fund Management (Growth vs Value)

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Model Answer

Two basic investment styles in active fund management are:

1. Growth Investing Style:
A growth manager looks for companies expected to give above-average earnings growth. The manager believes that the earning prospects and therefore the stock prices in future will be even higher. Identifying such high-growth sectors is the key challenge for the growth investment manager.

2. Value Investing Style:
A value manager looks to buy companies that are currently undervalued in the market, but whose true worth they believe will eventually be recognized in market valuations. The focus is on buying stocks at a price below their estimated true value.

Source: Chapter 7, What is Active Fund Management?

Explanation

- Each style carries **2 marks** — define it and explain the fund manager's approach clearly.
- Examiners expect the **key distinguishing idea**: Growth = future earnings potential; Value = currently underpriced stocks.
- Use the exact terms from the textbook: "above average earnings growth" and "undervalued in the market."
- Avoid mixing up these two styles — that is a common mistake.

Q10. § What is an ETF? **[1]**

Expand the term 'ETF'.

Previously asked in: 2023 92 Q2 (vi)

◆ **Mutual Funds** | Exchange Traded Fund (ETF) – Definition and Full Form

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Model Answer

ETF stands for **Exchange-Traded Fund** — a basket of stocks reflecting an index (like Nifty) that trades on a stock exchange like a regular stock.

Source: What is an ETF?, Chapter 7

Explanation

This is a 1-mark question requiring only the full form of the abbreviation. Examiners expect "Exchange-Traded Fund." Adding one brief clarifying phrase is acceptable but not mandatory. Do not write more than one line.

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