CBSE CLASS X

Introduction to Financial Markets (405)

ANSWER KEY

From previous CBSE Board Exam questions

Code: HRCAX3	Questions: 17	Maximum Marks: 25	Generated: 2026-06-15 13:05

SELECTIONS USED

Source	Previous-year board
Subject	Financial Market Management
Lessons	Primary Market
Year	2023-2026
Questions selected	17

Composition — Types: 9 MCQ · 6 Short · 1 Case-based · 1 Very short · 1 Long

Q1. § 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."

Q2. § 3.1 Issue of Shares **[1]**

__________ is a mechanism, where during the period of which the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price.

(A) Fixed Price
(B) Listing Price
(C) Book Building
(D) Delisting Price

Previously asked in: 2025 92 Q2 (iii)

◆ **Primary Market** Book Building Process

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Model Answer

(C) Book Building

Book Building is a mechanism where, during the period the IPO is open, bids are collected from investors at various prices which are above or equal to the floor price.

Source: Chapter 3, Issue of Shares — 'What does price discovery through Book Building Process mean?'

Explanation

The question directly quotes the textbook definition of Book Building. Examiners expect you to identify the correct term from the definition given. Remember: Book Building ≠ Fixed Price (where price is set in advance). In Book Building, the final price (Cut-Off Price) is discovered after bid closing.

Q3. **[1]**

Minimum number of days for which a bid remains open during book building.

(a) Three days
(b) Five days
(c) Seven days
(d) Nine days

Previously asked in: 2023 92 Q2 (iii)

◆ **Primary Market** Book Building Process - Minimum Bid Open Period

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Model Answer

(b) Five days — ❌ Incorrect.

(a) Three days ✓ — The Book should remain open for a **minimum of 3 days** during the book building process.

Explanation

The source passage explicitly states: *"The Book should remain open for a minimum of 3 days."* The correct answer is **(a) Three days**. Note: if the price band is revised, the bidding period is extended by 3 more days, subject to a maximum of 10 days total — do not confuse this with the minimum.

Q4. **[1]**

Define the following terms : Abridged Prospectus

Previously asked in: 2026 92 Q17 (c)

◆ **Primary Market** | Abridged Prospectus

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Model Answer

An **Abridged Prospectus** is a shorter version of the Prospectus that contains all the salient features of a Prospectus and accompanies the application form of public issues.

Source: Chapter 3, Section 3.1 – Issue of Shares

Explanation

The answer is directly lifted from the textbook definition. For 1 mark, examiners expect two key points in one line: (1) it is a **shorter/condensed version** of the Prospectus, and (2) it **accompanies the application form**. Do not confuse it with the Draft Offer Document or the full Prospectus.

Q5. § 3.1 Issue of Shares **[1]**

Define the following terms : Public Issue

Previously asked in: 2026 92 Q17 (d)

◆ **Primary Market** | 3.1 Issue Of Shares

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Model Answer

A **Public Issue** is an offer made to the general public to subscribe to the share capital of a company, open to any investor at large, resulting in allotment to 50 or more persons.

Source: Issue of Shares, Chapter 3

Explanation

The examiner expects two key elements: (1) it is an offer open to the general public (not a select group), and (2) allotment is made to 50 or more persons. Including both earns full marks. Do not confuse with private placement (fewer than 50 persons).

Q6. § 3.1 Issue of Shares **[1]**

"It accompanies the application form of public issues."

(a) Income Statement
(b) Annual Report
(c) Prospectus
(d) Financial Report

Previously asked in: 2023 92 Q4 (ii)

◆ **Primary Market** Prospectus / Application Form in Public Issues

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Model Answer

(c) Prospectus

As per the source, 'Abridged Prospectus' is a shorter version of the Prospectus that accompanies the application form of public issues.

Source: Chapter 3, What is an 'Abridged Prospectus'?

Explanation

The exact definition from the textbook states: *"'Abridged Prospectus' is a shorter version of the Prospectus and contains all the salient features of a Prospectus. It accompanies the application form of public issues."* The question describes the Abridged Prospectus, but since the option given is simply **Prospectus (c)**, that is the correct choice. Always remember this one-liner for MCQs and fill-in-the-blank questions.

Q7. § PRIMARY MARKET – Introduction § 3.1 Issue of Shares **[1]**

In a book building issue, the issuer is required to indicate either the price band or a floor price in the prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is referred to :

(A) Floor Price
(B) Price Band
(C) Cut-off Price
(D) Market Price

Previously asked in: 2025 92 Q4 (ii)

◆ **Primary Market** 3.1 Issue Of Shares

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Model Answer

(C) Cut-off Price

In a book building issue, the actual discovered issue price — which can be any price in the price band or above the floor price — is called the **Cut-off Price**.

Source: Chapter 3, Section 3.1 – "What is Cut-Off Price?"

Explanation

The passage directly defines Cut-off Price as the discovered issue price in a book building process. Students often confuse it with Floor Price (minimum bid price) or Price Band (the range). Remember: Floor Price = minimum; Price Band = range; Cut-off Price = final discovered price after book building.

Q8. § 3.1 Issue of Shares **[4]**

> Indian primary market ushered in an era of free pricing in 1992. Following this, the guidelines have provided that the issuer in consultation with Merchant Banker shall decide the price. There is no price formula stipulated by SEBI. SEBI does not play any role in price fixation. The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price. There are two types of issues, one where company and Lead Merchant Banker fix a price, called fixed price and other, where the company and the Lead Manager (LM) stipulate a floor price or a price band and leave it to market forces to determine the final price.

Read the given passage and answer the questions that follow. (Part of: Answer any 3 out of given 5 questions in 50-80 words each.)

- **(a)** Explain the role of merchant banker in an issue.
- **(b)** Does SEBI play role in fixation of price in issue?
- **(c)** Mention two types of issues.
- **(d)** Who decides the final prices of issues?

Previously asked in: 2023 92 Q17

◆ **Primary Market** | Free Pricing and Price Fixation in Primary Market | Role of Merchant Banker in an Issue | SEBI's Role in Price Fixation | Types of Issues in the Primary Market

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Model Answer

(a) The merchant banker works in consultation with the issuer (company) to decide the issue price. They are also required to give full disclosures of the parameters considered while deciding the price.

(b) No, SEBI does not play any role in price fixation. There is no price formula stipulated by SEBI. The company and merchant banker decide the price together.

(c) Two types of issues:

1. **Fixed Price Issue** – where company and Lead Merchant Banker fix the price.
2. **Book Building Issue** – where a floor price or price band is stipulated and market forces determine the final price.

(d) In a fixed price issue, the company and Lead Merchant Banker decide the final price. In book building, market forces determine the final price within the band stipulated by the company and Lead Manager.

Source: Financial Markets, Primary Market/Issue Pricing

Explanation

- The passage is the sole source — all four answers are directly lifted from it. Do not add outside knowledge.
- (b) is a direct yes/no + reason — keep it sharp.
- (c) uses the passage's own terms: "fixed price" and the book-building type (floor price/price band).
- Since this is a case-study extract question, examiners reward passage-based answers; paraphrase the text closely.

Q9. § 3.1 Issue of Shares **[1]**

The draft offer Document is available on the SEBI website for public comments for a period of ________ from the filling of draft offer document with SEBI.

(A) 15 days
(B) 21 Days
(C) 30 Days
(D) 7 Days

Previously asked in: 2025 92 Q5 (ii)

◆ **Primary Market** Draft Offer Document & SEBI Public Comment Period

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Model Answer

(B) 21 Days

The Draft Offer Document is available on the SEBI website for public comments for a period of **21 days** from the filing of the Draft Offer Document with SEBI.

Source: Chapter 3, "What does 'Draft Offer document' mean?"

Explanation

The passage clearly states: *"The Draft Offer Document is available on the SEBI website for public comments for a period of 21 days from the filing of the Draft Offer Document with SEBI."* Students often confuse this with the 30-day period (which is the minimum time before filing the red herring prospectus with ROC) — note these are two different timelines. Always read carefully what each time period refers to.

Q10. § 3.1 Issue of Shares **[1]**

Jaykant Shikre owns one hundred shares of a company. He has been given a special offer to subscribe to a new issue of shares from the same company at a ratio 2 : 1 based on the number of shares he currently holds. What method of flotation is being described in this case ?

(A) Initial public offer
(B) Offer for sale
(C) Rights issue
(D) Private placement

Previously asked in: 2026 92 Q2 (iii)

◆ **Primary Market** 3.1 Issue Of Shares

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Model Answer

(C) Rights Issue

A Rights Issue is when a listed company offers fresh securities to its *existing* shareholders in a fixed ratio to shares currently held. Jaykant holds 100 shares and is offered new shares at 2:1, which matches this definition exactly.

Source: Chapter 3, Issue of Shares — Rights Issue

Explanation

The key clue is "existing shareholder" + "fixed ratio (2:1) based on shares currently held" — this is the defining feature of a Rights Issue. IPO is for unlisted companies; Offer for Sale and Private Placement do not involve existing shareholders receiving a proportional offer. Examiners expect you to identify the method and give a one-line justification.

Q11. § 3.1 Issue of Shares **[2]**

Most companies are usually started privately by their promoter(s). The promoters' capital / and the borrowings from banks and financial institutions may not be sufficient for setting up or running the business over a long-term. In context of this statement, explain why do companies require to issue shares to the public ?

Previously asked in: 2025 92 Q11

◆ **Primary Market** 3.1 Issue Of Shares

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Model Answer

Companies require to issue shares to the public because the promoters' own capital and borrowings from banks and financial institutions may not be sufficient for setting up or running the business over the long term. Therefore, companies invite the public to contribute towards their equity by issuing shares through a **Public Issue**, which is an offer to the public to subscribe to the share capital of the company.

Source: Chapter 3, Section 3.1 – Issue of Shares

Explanation

The examiner expects two clear points: (1) the limitation — promoters' capital + bank borrowings are insufficient, and (2) the solution — inviting public contribution through a public issue. Use the textbook phrase "contribute towards the equity" for full marks. No need to elaborate on types of issues for a 2-mark question.

Q12. § PRIMARY MARKET – Introduction § 3.1 Issue of Shares **[1]**

In a book building issue, the issuer must specify either a price band or a floor price in the prospectus. The actual issue price can be any price within the specified price band or any price above the floor price. This determined issue price is known as

(A) Cut-off price
(B) Floor price
(C) Ceiling price
(D) Fixed price

Previously asked in: 2026 92 Q5 (ii)

◆ **Primary Market** 3.1 Issue Of Shares

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Model Answer

(A) Cut-off price

In a book building issue, the actual discovered issue price — which can be within the price band or above the floor price — is called the **Cut-off price**. It is decided by the issuer and lead manager after considering the book and investors' appetite for the stock.

Source: Chapter 3, Section 3.1 — "What is Cut-Off Price?"

Explanation

The passage explicitly defines Cut-off price as the discovered issue price in a book building process, which can be any price within the price band or above the floor price. Students often confuse it with floor price (minimum bid price) or ceiling/cap price (maximum of the band). Remember: floor price = minimum; ceiling = maximum; cut-off = final determined price after book building.

Q13. § 3.1 Issue of Shares **[2]**

Identify and outline two key advantages of the book-building processes within NSE IPO system.

Previously asked in: 2026 92 Q11

◆ **Primary Market** Book Building Process in IPO

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Model Answer

Two key advantages of the Book Building process within NSE's IPO system are:

1. **Nationwide reach with transparency**: NSE's NEAT IPO system provides a nationwide bidding facility, offering a fair, efficient, and transparent method for collecting bids using the latest electronic trading systems.
1. **Cost and time efficiency**: The costs involved in the issue are far less than those in a normal IPO, and the system reduces the time taken for completion of the entire issue process.

Source: Chapter 3, Section – Does NSE provide any facility for IPO?

Explanation

The question specifically asks about NSE's Book Building system advantages, not Book Building in general. Examiners expect you to pick two distinct points from the listed benefits in the passage. The four listed advantages are: nationwide bidding, fair/transparent method, lower costs, and reduced time — pick any two clearly. Keep each point precise and labelled.

Q14. **[1]**

Define the following terms : Lock-in

Previously asked in: 2026 92 Q17 (b)

◆ **Primary Market** Lock-in Period (IPO/Promoter Shares)

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Model Answer

Lock-in indicates a freeze on the sale of shares for a certain period of time, imposed by SEBI mainly to ensure that promoters continue to hold a minimum percentage in the company after a public issue.

Source: Chapter 3, Issue of Shares

Explanation

The examiner expects two key elements in this answer: (1) the meaning — a freeze/restriction on selling shares for a fixed period, and (2) the purpose — to ensure promoters retain a minimum stake post-public issue. Both points together make a complete 1-mark answer. Do not write more than one or two lines.

Q15. § 3.2 Foreign Capital Issuance **[1]**

What do you understand by 'Global Depository Receipts'?

Previously asked in: 2023 92 Q5 (ii)

◆ **Primary Market** 3.2 Foreign Capital Issuance

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Model Answer

Global Depository Receipts (GDRs) are negotiable certificates that allow an issuer to raise capital simultaneously in two or more markets through a global offering, where each GDR typically represents a fixed number of underlying company shares (e.g., 1 GDR = 10 shares).

Source: Foreign Capital Issuance, chapter 3

Explanation

For a 1-mark question, just define GDR in one clear sentence. Key terms examiners look for: **negotiable certificate**, **raise capital in two or more markets**, and optionally the **fixed ratio** of GDR to underlying shares. Avoid writing more than 2 lines.

Q16. **[1]**

Which of the following is not an advantage of Book Building through NSE ?

(A) It offers a nation wide bidding facility in securities.
(B) It provides a fair, efficient and transparent method for collecting bids using the latest electronic trading system.
(C) Costs involved in the issue are far less than those in a normal IPO.
(D) The system increases the time taken for completion of the issue process.

Previously asked in: 2025 92 Q3 (iii)

◆ **Primary Market** Book Building through NSE – Advantages and Limitations

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Model Answer

The correct answer is **(D) The system increases the time taken for completion of the issue process.**

This is **not** an advantage — in fact, Book Building through NSE **reduces** the time taken for completion of the issue process.

Explanation

The source passage explicitly lists the advantages of Book Building through NSE, which include nationwide bidding, fair/transparent method, and lower costs. It states the system **reduces** (not increases) the time taken. Options A, B, and C are directly listed as advantages in the passage, making D the odd one out.

Q17. § 3.2 Foreign Capital Issuance **[4]**

Foreign capital issuance is the process by which a foreign entity raises capital through the issuances of securities in a foreign market. This can be done through a variety of securities, including stocks, bonds and other financial instruments. Indian companies are permitted to raise foreign currency resources through two main sources : (a) Issue of foreign currency convertible bonds more commonly known as 'Euro' issues; and (b) Issue of ordinary shares through depositories receipts namely Global Depository Receipts (GDRs), American Depository Receipts (ADRs), to foreign investors i.e. to the institutional investors or individual investors. In the context of this para, what are foreign currency convertible bonds, Global Depository Receipts (GDRs) and American Depository Receipts ?

Previously asked in: 2025 92 Q17

◆ **Primary Market** 3.2 Foreign Capital Issuance

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Model Answer

Foreign Currency Convertible Bonds (FCCBs): These are bonds issued by Indian companies in foreign currency and are convertible into ordinary shares of the issuing company. They are commonly known as 'Euro issues' and allow companies to raise foreign currency resources from international markets.

Global Depository Receipts (GDRs): A GDR is a global finance vehicle that allows an issuer to raise capital simultaneously in two or more markets through a global offering. It is a negotiable certificate that usually represents a company's traded equity/debt. The underlying shares correspond to GDRs in a fixed ratio (e.g., 1 GDR = 10 shares). GDRs may be used in public or private markets inside or outside the US.

American Depository Receipts (ADRs): An ADR is a physical certificate evidencing ownership of American Depository Shares (ADSs). ADSs are US dollar-denominated forms of equity ownership in a non-US company, traded on NYSE, AMEX or quoted on NASDAQ. They provide US investors a convenient way to invest in overseas securities, though they do not eliminate currency risk.

Source: Foreign Capital Issuance, Chapter 3

Explanation

- The examiner expects definitions of all three instruments — FCCBs, GDRs, and ADRs — since the question asks for all three.
- Note: The textbook does not give a separate elaborate definition of FCCBs beyond calling them 'Euro issues' used to raise foreign currency; keep that brief.
- For GDRs, the fixed ratio example (1 GDR = 10 shares) is a useful detail to include.
- For ADRs, mention the key exchanges (NYSE, AMEX, NASDAQ) and the USD denomination — these are frequently tested points.
- Do not confuse ADR (the certificate) with ADS (the actual share form); the question only asks for ADR, so a brief mention of ADS within it suffices.

Q18. § PRIMARY MARKET – Introduction § 3.2 Foreign Capital Issuance **[1]**

Define the following terms : Foreign Currency Convertible Bonds (FCCB)

Previously asked in: 2026 92 Q17 (a)

◆ **Primary Market** 3.2 Foreign Capital Issuance

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Model Answer

Foreign Currency Convertible Bonds (FCCBs) are bonds issued by Indian companies in foreign currency to raise resources abroad, which can be converted into equity shares at a later date.

Source: Foreign Capital Issuance, Chapter 3

Explanation

The examiner expects a one-line definition covering two key points: (1) it is a bond issued in foreign currency, and (2) it is convertible (into equity). The passage mentions FCCBs as one of two ways Indian companies raise foreign currency resources. Keep it concise for 1 mark.

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