**Financial Institutions and Markets**

**Dec 2023 Examination**

**Q1. Mr Raman is one of the director in XYZ ltd company .The company is engaged in hotel sector ,which has recently witnessed a steady downfall in its revenue and value of its assets due to a downward trend persisting in the market. The periodical financial result of the compan were to be declared in the fortnight time. Mr. Raman being an insider, had to access to unpublished price sensitive information related to it. Consequently, he sells the major portion of his holding in an anticipation of fall in the market price of the shares of the company subsequent to announcement of periodical financial result of the company. On conducting a probe, SEBI finds Mr. Raman guilty of insider is trading.**

**In context to the above case – State the importance of SEBI and its various functions. (10 Marks)**

**Ans 1.**

**Introduction**

The Securities and Exchange Board of India (SEBI) plays a pivotal role in the Indian financial market ecosystem. Established in 1988 and given statutory powers in 1992, SEBI's primary objective is to protect the interests of investors in securities and promote the development and regulation of the securities market. The case of Mr. Raman, a director at XYZ Ltd., underscores the significance of SEBI's role in ensuring a level playing field for all market participants. Insider trading, as seen in this scenario, is a malpractice where individuals with access to unpublished price-sensitive information exploit it for personal gains, thereby undermining the

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**Q2. Rima buys a financial asset from the RBI. This financial asset is an instrument of short- term borrowing. He has bought it because he doesn’t want to take risk and wants an assured return. This instrument is a promissory note. It is highly liquid. The instrument is also known as zero coupon bonds. On this instrument, it is written T-91 Based on the above case study, Identify the financial asset indicated in the above case .elaborate why this instrument is called as zero coupon bonds and mention what are functions of these instruments and why this is called as T-19? (10 Marks)**

**Ans 2.**

**Introduction**

Financial markets are replete with a variety of instruments that cater to the diverse needs of investors. These instruments range from high-risk, high-return equities to low-risk, fixed-return bonds. The case study introduces us to a financial asset purchased by Rima from the RBI, which is a short-term borrowing instrument. This asset is designed for investors who are risk-averse and seek an assured return on their investment. The instrument, described as a promissory note, is highly liquid and is known as a zero-coupon bond. The nomenclature "T-91" is also associated with this asset. Before delving into the specifics of this financial instrument, it's

**Q3. Nishanth was working in the portfolio management department of Beta Ltd and had new recruits to whom he was supposed to provide training on the risks associated with the financial market as apart from earning returns they should be well aware of the risks that can be managed and which ones cannot be managed in a portfolio. He decided to broadly classify the risks in two categories and explain the different types of risks associated with each one. If you are Nishanth,**

**a) Explain different types of risks associated with systematic risk. (5 Marks)**

**Ans 3a.**

**Introduction**

In the dynamic world of financial markets, risks are as inherent as returns. For every potential gain, there exists an associated risk. Nishanth, with his experience in portfolio management, understands the importance of not just chasing returns but also managing and mitigating risks. To provide a comprehensive understanding to the new recruits, he categorizes risks into two

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**b) Explain different types of risks associated with unsystematic risk. (5 Marks)**

**Ans 3b.**

**Introduction**

While systematic risks are inherent to the entire market, unsystematic risks are unique to specific companies or industries. Often termed as "diversifiable risk," unsystematic risk arises from factors that are not correlated with market returns. By diversifying investments across various assets or sectors, investors can significantly reduce or even eliminate unsystematic