**Financial Institution & Markets**

**April 2024 Examination**

**Q1. Mr. Arun retired from service as an associate professor. He received a lump sum amount of Rs 50 lacs as retirement benefits. He intends to invest the amount in the best possible way. He approaches you as a financial expert to seek advice on Derivatives Instruments. Discuss with him about the various derivative instrument in details. (10 Marks)**

**Ans 1.**

**Introduction**

Derivative instruments are financial contracts whose value is derived from the performance of underlying entities such as assets, indexes, or interest rates. These instruments are pivotal in the modern financial landscape, offering investors and institutions a variety of mechanisms for hedging, speculation, and arbitrage. As Mr. Arun considers investing his retirement benefits, understanding the nuances of these instruments is crucial. Derivatives come in several forms, including futures, options, swaps, and forwards, each serving different investment objectives and risk profiles. They enable investors to manage financial risks more effectively by locking in prices, leveraging positions, and diversifying portfolios. For

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**Q2. Mr. Prakash wants to start up his venture. He has no idea about the investment stages, which forms the building block for the start-up business and hence seeks help from his financial advisor Mr. Sharma. Discuss and make him aware about the different stages of venture capital financing to Mr. Prakash (10 Marks)**

**Ans 2.**

**Introduction**

Venture capital financing is a pivotal engine that drives the growth and innovation of start-ups, offering not just capital but valuable guidance and network access to emerging companies. For entrepreneurs like Mr. Prakash, understanding the different stages of this financing can be the cornerstone of their business journey. Essentially, venture capital involves investing in start-ups and small businesses with strong growth potential, in exchange for equity, or partial ownership of the company. This process is not linear but comprises various stages, each tailored to the specific needs and maturity of the business. From the

academic but a practical guide that shapes the trajectory of his entrepreneurial venture.

**Q3. “Credit rating is an estimate of borrower’s credit worthiness in general and is used by investors, intermediaries such as investment banks, issuers of debt, and businesses and corporations”**

**(a) With the above statement keeping in mind. Explain what is meant by credit rating and discuss any four-credit agencies in India and the various roles played by them. (5 Marks)**

**Ans 3a.**

**Introduction**

Credit rating serves as a pivotal indicator of a borrower's financial health and capability to repay debts. It is a comprehensive evaluation of the credit risk associated with a borrower, which includes individuals, corporations, state governments, or sovereign countries. This rating, represented through a standardized scale, influences the borrower's access to capital markets and the terms under which they can borrow. It is a critical tool for investors, financial

diverse yet unified approach towards understanding and mitigating financial risk, ultimately.

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**(b) Evaluate PNB Scam (Punjab National Bank) and discuss the various aspect of the fraud in your own words. (Mention about the fraud allegation, how the fraud came to light and the various factors responsible for this fraud). (5 Marks)**

**Ans 3b.**

**Introduction**

The Punjab National Bank (PNB) scam, uncovered in 2018, stands as one of the most significant financial frauds in India, involving an alleged $2 billion. This scandal not only shook the Indian banking sector but also raised questions about the effectiveness of the regulatory and oversight mechanisms in place. The fraud centered around the issuance of unauthorized Letters of Undertaking (LoUs) that facilitated international transactions without