MADE BY

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CBSE CLASS 12

BUSINESS STUDIES

PREMIUM NOTES

CHAPTER 10

Financial Markets

NCERT BASED | EXAM FOCUSED | EASY LANGUAGE

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Chapter Snapshot

#	Question	Answer
1	What is this chapter about?	How money flows from those who have it (savers) to those who need it (businesses/government) — through money markets, capital markets, stock exchanges, and SEBI.
2	Why is it important?	Part B chapter with consistent board exam marks. SEBI functions + Money Market vs Capital Market + Primary vs Secondary Market appear almost every year.
3	Real-life connection	When the government borrows money, when Reliance does an IPO, when you buy a mutual fund or stock — you are participating in financial markets.
4	Why do students struggle?	Many instruments and concepts sound similar: T-Bills vs Commercial Paper, Primary vs Secondary Market, Call Money vs Certificate of Deposit.
5	How to study it	Learn Money Market instruments as a 5-row comparison table. Learn Capital Market as Primary + Secondary. Learn SEBI functions in 3 categories.
6	Exam weight	High — SEBI functions (5/6-mark), Money Market vs Capital Market difference (4/5-mark), Primary vs Secondary Market (4-mark) appear regularly.
7	Most important areas	5 Money Market instruments, Primary Market methods of flotation, Functions of Stock Exchange, 3 categories of SEBI functions, Money Market vs Capital Market difference table.
8	Difficulty level	Medium. Conceptually manageable, but volume of definitions and differences requires careful study.
9	Revision time	First read — 1.5 hours. Second revision — 45 min. Final revision — 20 min.
10	One-line summary	Financial markets are the pipelines through which surplus funds flow from savers to investors — regulated by SEBI, facilitated by money markets and capital markets.

Section 1 Big Picture of the Chapter

Imagine two people:

Person A — Sharma Ji: has ₹10 lakh sitting idle in his savings account earning 3% interest. He wants to earn more but doesn't know where to put it.

Person B — Startup founder Priya: has a brilliant business idea that needs ₹10 lakh to start. She has no personal savings but a solid plan.

Without a financial market: Sharma Ji keeps his money at 3%. Priya's business never starts. Both lose.

With a financial market: Sharma Ji buys Priya's shares through the stock exchange or lends to her government-backed bond. Sharma Ji earns 12%. Priya starts her business. Both win.

Financial markets = the plumbing that connects surplus money to deficit needs.

Now zoom out. This same thing happens at the national level: The government needs ₹15 lakh crore for roads, hospitals, defence. Millions of Indians have small savings. Financial markets channel those small savings into the government's hands through Treasury Bills and Government Bonds.

And SEBI is the regulator who makes sure nobody cheats — no insider trading, no price manipulation, no fraud. It's the financial market's police + promoter.

TEACHER TIP — SMIT SIR

Classroom hook: Ask: 'If a brilliant startup founder from your class had a great idea but no money, and your rich uncle had money but no idea — how would they find each other?' The answer the class gives IS the function of a financial market. Build from there.

Section 2 Learning Objectives

After studying this chapter, you will be able to:

1. Define financial markets and explain their functions.
2. Explain the meaning and features of the Money Market.
3. Describe all 5 Money Market instruments with key features.
4. Define Capital Market and distinguish between Primary and Secondary Markets.
5. Explain the 5 methods of flotation in the Primary Market.
6. Describe the functions of the Stock Exchange.
7. Explain the trading procedure on a stock exchange.
8. Differentiate between Money Market and Capital Market on key bases.
9. Differentiate between Primary Market and Secondary Market.
10. Explain the establishment, objectives, and 3 categories of SEBI functions.
11. Write structured 4-mark and 6-mark board exam answers from this chapter.

Section 3 Chapter Map

Topic No.	Topic Name	What You'll Learn
1	Concept of Financial Markets	Meaning + 5 Functions
2	Money Market	Meaning + 5 Instruments: T-Bills, Commercial Paper, Call Money, CD, Commercial Bills
3	Capital Market — Primary Market	Meaning + 5 Methods of Flotation: Public Issue, Offer for Sale, Private Placement, Rights Issue, e-IPO
4	Capital Market — Secondary Market (Stock Exchange)	Meaning + 6 Functions + Trading Procedure (5 steps)
5	SEBI	Establishment + Objectives + 3 Categories of Functions: Protective, Developmental, Regulatory

Structure of Financial Markets — At a Glance

Financial Market	Time Horizon	Instruments Dealt In	Key Players
Money Market	Short-term (< 1 year)	T-Bills, Commercial Paper, Call Money, Certificate of Deposit, Commercial Bills	RBI, Banks, Government, Corporates
Capital Market — Primary	Long-term (> 1 year)	New equity shares, new debentures, IPO	Companies (issuers), Investors (subscribers)
Capital Market — Secondary (Stock Exchange)	Long-term (> 1 year)	Already-issued shares, debentures, bonds	Investors, Brokers, Speculators

MEMORY TRICK

Master anchor: Financial Markets = Money Market (short-term) + Capital Market (long-term). Capital Market = Primary (new issue) + Secondary (old issue traded).

Time trick: Money Market = 'Momentary' = short time. Capital Market = 'Capital is for the long term' = long-term.

Section 4 Key Terms Before Starting

Term	Simple Meaning	One-line Example
Financial Market	A market where financial assets (securities) are created and traded.	Stock exchange where shares are bought and sold.
Securities	Financial instruments representing financial value — shares, bonds, debentures.	100 shares of Reliance = a security worth ₹2,500 per share.
Money Market	Market for short-term borrowing and lending (less than 1 year).	Government borrowing for 91 days through Treasury Bills.
Capital Market	Market for long-term borrowing and lending (more than 1 year).	Infosys issuing equity shares in an IPO to fund expansion.
Primary Market	Where new (fresh) securities are issued for the first time.	Reliance Jio's IPO — first-time public issue of shares.
Secondary Market	Where already-issued securities are traded between investors.	Buying Reliance shares on NSE that were already listed earlier.
IPO	Initial Public Offering — first-ever public issue of shares by a company.	Zomato's IPO in 2021 — first time shares were available to public.
FPO	Follow-on Public Offering — second or subsequent public issue by a listed company.	SBI already listed, issues more shares to public to raise funds.
Stock Exchange	An organised market where listed securities are bought and sold.	BSE (Bombay Stock Exchange) and NSE (National Stock Exchange).
SEBI	Securities and Exchange Board of India — regulator of Indian capital markets.	SEBI fines a company for insider trading.
Insider Trading	Using non-public, privileged information to trade in securities for personal gain.	A CEO buying shares in his company before announcing a big deal.
Demat Account	Electronic account holding shares in digital (dematerialised) form — no physical certificates.	Zerodha, Groww, Upstox demat accounts.
Broker	A licensed intermediary who executes buy/sell orders on behalf of investors on the stock exchange.	Angel One, Motilal Oswal, Zerodha — all SEBI-registered brokers.
Treasury Bills (T-Bills)	Short-term government securities issued by RBI to raise money for the government.	Government borrows ₹10,000 crore for 91 days at a discounted price.

Term	Simple Meaning	One-line Example
Sensex	The stock market index of the 30 largest companies listed on BSE.	Sensex at 80,000 means the weighted average of 30 BSE companies is at that level.
Nifty	The stock market index of 50 largest companies listed on NSE.	Nifty at 24,000 reflects the performance of India's top 50 listed companies.

Section 5 Detailed Topic-wise Notes

Topic 1 Concept of Financial Markets

A. Meaning

DEFINITION

A financial market is a market for creation and exchange of financial assets such as shares, debentures, bonds, and government securities.

Simple: Financial markets are the **meeting points** where people who have surplus money (savers/investors) meet people who need money (businesses, government) — and they exchange financial assets for money.

Unlike physical markets (where fruits or clothes are sold), financial markets deal in INTANGIBLE assets — securities that represent a claim on money or future income.

B. Functions of Financial Markets

Five key functions. A **3-4 mark question** from this section.

1. Mobilisation of savings and channelising them into the most productive uses

Explanation: Financial markets collect the small savings of millions of individuals (through FDs, mutual funds, shares) and channel them into productive business investments — far more efficiently than any individual could do alone.

EXAMPLE

Millions of investors put small amounts into mutual funds → mutual funds invest in 50+ companies → those companies build factories, hire workers, generate output. Without the financial market, this channelling is impossible.

Keywords: mobilise savings, productive use, channelise, allocate efficiently

2. Facilitate price discovery

Explanation: In financial markets, the interaction of buyers and sellers through supply and demand continuously determines the fair price of securities. No government or authority sets the price — the market does.

EXAMPLE

If Reliance earns record profits → demand for its shares rises → price rises from ₹2,500 to ₹3,000. If it faces a scandal → demand falls → price drops. Price = market signal of the company's true value.

Keywords: price discovery, supply and demand, fair price, market mechanism

3. Provide liquidity to financial assets

Explanation: Liquidity means the ability to convert an asset into cash quickly. Stock exchanges give investors the ability to sell their securities anytime during market hours — making securities highly liquid.

EXAMPLE

If you hold Infosys shares and need cash urgently, you can sell them on NSE and receive cash within 2 business days (T+2 settlement). Without the stock exchange, you would need to find a private buyer — very slow.

Keywords: liquidity, convert to cash, marketability, sell anytime, T+2

4. Reduce the cost of transactions

Explanation: Financial markets provide a centralised, organised infrastructure for buying and selling securities — standardised procedures, known rules, transparent information. This dramatically reduces the search costs, information costs, and transaction costs of investing.

EXAMPLE

A centralised stock exchange means a buyer in Mumbai instantly finds a seller in Delhi for the same Wipro share, at the same price, with known fees — far cheaper and faster than searching privately.

Keywords: reduce cost, transaction cost, standardised, efficient, transparent

5. Facilitate risk management (transfer of risk)

Explanation: Financial markets allow risk to be transferred from those who cannot bear it to those who can. Investors can diversify their portfolio across many securities, reducing overall risk.

EXAMPLE

An investor holding only one company's shares is fully exposed to that company's risk. By spreading across 30 companies through a mutual fund, risk is dramatically reduced. Financial markets make this diversification easy and affordable.

Keywords: risk transfer, diversification, portfolio, hedge, spread risk

MEMORY TRICK

Memory trick — "M-P-L-C-R":

M — Mobilise savings

P — Price discovery

L — Liquidity to assets

C — Cost reduction

R — Risk management (transfer)

Recall: "Markets Provide Liquidity, Cut Risk."

Topic 2 Money Market

DEFINITION

The Money Market is a market for short-term funds — where financial instruments with a maturity of less than one year are created, bought, and sold.

Key characteristics:

- **Short-term:** instruments mature in less than 1 year (often just days).
- **Highly liquid:** instruments can be quickly converted to cash.
- **Safe:** most instruments are backed by government or large institutions.
- **Participants:** RBI, commercial banks, government, large corporations, financial institutions.

5 Money Market Instruments

These **5 instruments** are the **most tested topic** from this section — either as '4-mark: explain any two' or '6-mark: explain all five'.

01 Treasury Bills (T-Bills)

DEFINITION

Treasury Bills are short-term government securities issued by the Reserve Bank of India (RBI) on behalf of the Central Government to meet its short-term financial requirements.

Feature	Detail
Issued by	RBI on behalf of the Central Government
Who invests?	Banks, financial institutions, mutual funds, corporates — NOT individuals generally
Tenure / Maturity	91 days, 182 days, or 364 days
How they work	Issued at a DISCOUNT (below face value) and redeemed at face value — profit = difference
Risk level	Zero default risk — guaranteed by Government of India
Minimum amount	₹25,000 and in multiples thereof
Return	The difference between purchase price and face value (discounted instruments)

EXAMPLE

Simple Example: Government needs ₹100 crore for 91 days. RBI issues T-Bills with face value ₹100, but sells them at ₹97. After 91 days, government pays ₹100. Investor earns ₹3 profit per T-Bill. This ₹3 = interest, earned as 'discount'. Since government never defaults — zero risk for investor.

02 Commercial Paper (CP)

DEFINITION

Commercial Paper is a short-term, unsecured promissory note issued by large, creditworthy companies (corporates) to raise short-term funds directly from the market.

Feature	Detail
Issued by	Large, creditworthy corporates, financial institutions, primary dealers
Who invests?	Banks, insurance companies, mutual funds, other corporates
Tenure	Minimum 7 days, maximum 1 year (typically 30-90 days)
How they work	Issued at a discount, redeemed at face value (like T-Bills)
Risk level	Unsecured (no collateral) — depends on creditworthiness of issuer
Minimum amount	₹5 lakh and in multiples of ₹5 lakh
Difference from bank loan	Raised directly from market (disintermediation) — no bank middleman

EXAMPLE

Example: Reliance Industries needs ₹500 crore for 90 days to fund raw material purchase. Instead of going to a bank (slower, costly), it issues Commercial Paper to mutual funds at a discounted rate. MF earns interest. Reliance gets cheap, quick money. Both benefit — no bank needed.

COMMON MISTAKE

CP vs T-Bills: T-Bills = GOVERNMENT borrowing. CP = CORPORATE borrowing. Both are short-term, both issued at discount. The issuer is the key difference.

03 Call Money

DEFINITION

Call Money is very short-term borrowing and lending between banks — typically for one day (overnight) or a maximum of 15 days — to meet temporary liquidity shortfalls.

Feature	Detail
Participants	Only commercial banks (interbank market)
Tenure	1 day (overnight — call money) to 15 days (short notice money)
Purpose	Banks borrow to meet their daily Cash Reserve Ratio (CRR) requirements with RBI
Interest rate	'Call Rate' — fluctuates daily based on supply and demand of funds
Risk	Very low — banks lending to other banks
Collateral	No collateral required (clean money market)

EXAMPLE

Example: Bank A has a surplus of ₹500 crore at end of day but Bank B is ₹200 crore short of its CRR requirement. Bank A lends ₹200 crore to Bank B for 1 day at the overnight call rate (say 6.5%). Next morning, Bank B repays. This daily interbank lending = Call Money market.

EXAM TIP

Exam distinction: Call money is exclusively BETWEEN BANKS. No corporates, no individuals. If a question says 'interbank overnight borrowing' — answer is Call Money.

04 Certificate of Deposit (CD)

DEFINITION

A Certificate of Deposit is an unsecured, negotiable money market instrument issued by banks and financial institutions to individuals and companies — essentially a time deposit in electronic or certificate form.

Feature	Detail
Issued by	Scheduled commercial banks (7 days–1 year) and All-India Financial Institutions (1 year–3 years)

Who can invest?	Individuals, companies, mutual funds, NRIs
Maturity	Banks: 7 days to 1 year. Financial Institutions: 1 year to 3 years
Minimum amount	₹1 lakh and in multiples of ₹1 lakh
Negotiable?	YES — can be sold in the secondary market before maturity
Different from Fixed Deposit?	FD cannot be sold to someone else; CD can be transferred/sold (negotiable)

EXAMPLE

Example: Mr. Sharma has ₹5 lakh spare for 6 months. He buys a CD from SBI at 7.5% interest. After 3 months, he urgently needs cash. He sells the CD to another investor in the secondary market. Fixed Deposit cannot be sold like this — CD can.

COMMON MISTAKE

CD vs FD: Fixed Deposit (FD) = bank savings product, NOT negotiable (cannot be sold). Certificate of Deposit (CD) = money market instrument, negotiable (can be sold before maturity). Both pay interest — but CD is tradeable.

05 Commercial Bill

DEFINITION

A Commercial Bill is a short-term money market instrument — essentially a Bill of Exchange used by businesses to finance credit transactions (goods sold on credit).

Feature	Detail
Based on	Bill of Exchange — a written order by seller to buyer to pay a fixed amount on a fixed future date
Maturity	Usually 90 days
Purpose	Finance trade credit — when goods are sold on credit, seller issues a bill
Discounting	Seller can sell the bill to a bank BEFORE maturity at a discount (get cash now)
Risk	Depends on creditworthiness of the buyer (drawee)
Who uses it?	Businesses selling goods on credit — mainly manufacturing and trading firms

EXAMPLE

Example: Textile company A sells ₹10 lakh of fabric to retailer B on 90-day credit. A issues a commercial bill. But A needs cash now, not after 90 days. So A goes to its bank and discounts the bill — gets ₹9.7 lakh now (₹30,000 is the bank's discount = interest). After 90 days, the bank collects ₹10 lakh from retailer B.

5 Money Market Instruments — Quick Comparison Table

Instrument	Issued By	Maturity	Risk	Special Feature
1. Treasury Bills	RBI (Govt)	91/182/364 days	Zero (Govt-backed)	Issued at discount; zero-coupon
2. Commercial Paper	Large corporates	7 days – 1 year	Medium (unsecured)	No bank needed; disintermediation
3. Call Money	Interbank	1–15 days	Very low	Only between banks; overnight
4. Certificate of Deposit	Banks/FIs	7 days – 3 years	Low	Negotiable FD; can be sold
5. Commercial Bill	Businesses	~90 days	Moderate	Finance trade credit; discountable

MEMORY TRICK

Memory trick — "T-C-C-C-C" — 5 instruments, all short-term:

T — Treasury Bills (Government)

C — Commercial Paper (Large companies)

C — Call Money (Interbank, overnight)

C — Certificate of Deposit (Banks, negotiable)

C — Commercial Bill (Trade credit)

Story: "The Captain Commands Cautiously, Consistently."

Topic 3 Capital Market

DEFINITION

Capital Market is a market for long-term funds — where financial instruments with maturity of more than one year are created, bought, and sold. It deals in equity shares, preference shares, debentures, and bonds.

Two parts: (1) Primary Market — new securities issued for the first time. (2) Secondary Market — already-issued securities traded between investors.

Primary Market (New Issue Market)

DEFINITION

The Primary Market is the market where securities are created and sold for the FIRST TIME. Companies raise fresh capital directly from the public or institutional investors.

Who benefits? (a) Companies — get fresh capital for growth. (b) Investors — get first opportunity to own a growing company.

5 Methods of Flotation in the Primary Market

These **5 methods** are a **common 4-5 mark question** — 'Explain any three methods of floatation of new issues in the primary market.'

Method 1: 1. Public Issue through Prospectus (IPO / FPO)

Explanation: The company issues a prospectus (a detailed document about the company, its business, financials, risk factors, and the issue) and invites the general public to subscribe to the shares. This is the most common and well-known method.

Types: IPO (Initial Public Offering) = first ever public issue. FPO (Follow-on Public Offering) = subsequent public issue by a listed company.

EXAMPLE

Zomato's IPO (2021) — issued a DRHP (prospectus), invited public to apply through ASBA/UPI, allotted shares to successful applicants, listed on BSE and NSE.

Keywords: IPO, FPO, prospectus, DRHP, public subscription, ASBA

Method 2: 2. Offer for Sale

Explanation: The existing shares of a company (already owned by promoters or early investors like PE funds) are sold to the general public through an intermediary. The company does NOT get fresh capital — the selling shareholders get money.

> **EXAMPLE**
>
> When a private equity firm selling its stake in a company through a public offer: it's the PE firm selling, not the company issuing new shares. Offer for Sale is common in IPOs where promoters partially exit.

Keywords: existing shares, promoters sell, no fresh capital, intermediary

Method 3: 3. Private Placement

Explanation: Securities are issued and sold to a select group of institutional investors (mutual funds, insurance companies, banks, FIIs) rather than the general public. Quicker and cheaper than a public issue.

> **EXAMPLE**
>
> A company needing ₹500 crore goes directly to 5 mutual funds and 2 insurance companies and sells shares at an agreed price — private placement completed in days. No SEBI prospectus filing needed; no retail investors.

Keywords: institutional investors, select group, quick, no public offer, mutual funds

Method 4: 4. Rights Issue

Explanation: Existing shareholders of a company are given the 'right' to buy additional new shares in proportion to their current holdings — at a price lower than the current market price.

> **EXAMPLE**
>
> If you hold 100 Reliance shares and Reliance announces a rights issue at 1:5 ratio at ₹2,000 (market price ₹2,500) — you get the right to buy 20 more shares at ₹2,000. You benefit from the discount. Existing shareholders are prioritised.

Keywords: existing shareholders, proportional, discounted price, rights, preferential

Method 5: 5. e-IPO (Electronic IPO)

Explanation: An IPO where the application process is conducted entirely online — investors apply through internet/mobile apps, payment through UPI or ASBA (Application Supported by Blocked Amount). No physical forms needed.

> **EXAMPLE**

When LIC issued its IPO (2022) — investors applied through their bank's net banking, BHIM UPI, or broker apps. No visit to bank. No paper forms. Amount blocked in bank account until allotment. If not allotted, unblocked automatically.

Keywords: online, internet, UPI, ASBA, electronic, digital, net banking

MEMORY TRICK

Memory trick — 5 methods of flotation — "P-O-P-R-E":

P — Public Issue (IPO/FPO) — most common

O — Offer for Sale — existing shares sold

P — Private Placement — to select institutions

R — Rights Issue — to existing shareholders

E — e-IPO — online/electronic

Recall: "Public Offers Placement Rights Electronically."

Topic 4 Secondary Market — Stock Exchange

DEFINITION

The Secondary Market is where already-issued securities (shares, bonds, debentures) are bought and sold by investors among themselves — the company does NOT receive any money from secondary market transactions.

Stock Exchange = The formal, organised institution through which secondary market trading takes place.

Major Indian exchanges: BSE (Bombay Stock Exchange, established 1875) and NSE (National Stock Exchange, established 1992).

Sensex = BSE index of top 30 companies. **Nifty** = NSE index of top 50 companies.

A. Functions of Stock Exchange

These **6 functions** are a **common 4-5 mark question**. Know all 6 with examples.

1. Continuous and ready market for securities (Liquidity and Marketability)

Explanation: The stock exchange provides a continuous, organised platform where investors can buy or sell their securities at any time during market hours (9:15 AM to 3:30 PM). This gives securities their most critical feature — liquidity.

EXAMPLE

You hold 500 Infosys shares. If you urgently need ₹5 lakh, you can sell on NSE and receive settlement in T+1 days. No waiting for a private buyer.

Keywords: continuous market, liquidity, T+1 settlement, buy/sell anytime

2. Price determination (through supply and demand)

Explanation: In a stock exchange, prices are determined by continuous interaction of buyers' bids (demand) and sellers' offers (supply). This gives a fair, transparent, market-driven price for every listed security.

EXAMPLE

When Zomato reports better-than-expected profits → more buyers than sellers → price rises from ₹200 to ₹240. When it disappoints → more sellers → price falls. Market determines price.

Keywords: price discovery, supply and demand, transparent, fair price, market mechanism

3. Safety of transaction (through regulation and transparency)

Explanation: Stock exchanges operate under strict SEBI regulations. All listed companies must disclose financials quarterly, follow corporate governance norms, and face strict action for fraud. This creates a safe, regulated environment.

> **EXAMPLE**
>
> Before stock exchanges, if you bought shares of a company that turned out to be fraudulent, you had no recourse. Today, SEBI regulations, mandatory disclosures, and stock exchange monitoring protect investors.

Keywords: SEBI regulated, disclosure norms, corporate governance, investor protection, transparency

4. Contributes to economic growth

Explanation: By channelling savings into productive investments (companies' equity), the stock exchange contributes directly to economic growth — more capital for businesses = more production, more jobs, more GDP.

> **EXAMPLE**
>
> India's capital market mobilised over ₹1.7 lakh crore through IPOs in 2023-24 — that money went into building factories, hiring workers, developing technology — directly growing the economy.

Keywords: economic growth, GDP, capital mobilisation, productive investment, employment

5. Spreading equity cult (democratising investment)

Explanation: Stock exchanges allow any individual — even a student with ₹500 — to own shares of the largest companies. This 'equity cult' spreads ownership of wealth across society.

> **EXAMPLE**
>
> Earlier, only rich merchants owned companies. Today, a farmer in Gujarat can own 1 share of Reliance through Zerodha. Stock exchange made this democratisation possible.

Keywords: equity cult, democratise, small investors, wealth distribution, participation

6. Provides scope for speculation

Explanation: The stock exchange allows investors to speculate — buy shares expecting price to rise and sell at profit, or sell short expecting price to fall. Regulated speculation provides liquidity and helps in price discovery.

EXAMPLE

Day traders buy and sell Nifty futures within hours, profiting from small price movements. This speculative activity increases trading volume and keeps the market liquid.

Keywords: speculation, price discovery, liquidity provider, derivatives, futures

MEMORY TRICK

Trick — "C-P-S-E-S-S":

C — Continuous market (Liquidity)

P — Price determination

S — Safety of transaction

E — Economic growth

S — Spreading equity cult

S — Scope for speculation

Recall: "Crazy People Sell Every Single Share."

B. Trading Procedure on Stock Exchange — 5 Steps

A **common 4-5 mark question**: 'Explain the trading procedure on a stock exchange.' Write all 5 steps in sequence.

1 **Selection of a SEBI-registered broker / sub-broker**
Investor opens an account with a SEBI-registered broker (Zerodha, ICICI Direct, Angel One, etc.)

▼

2 **Opening a Demat Account and Trading Account**
Demat account holds securities electronically. Trading account is used to place buy/sell orders.

▼

3 **Placing the order — specifying scrip, quantity, and price**
Investor specifies: WHICH security (e.g., Reliance), HOW MANY (100 shares), at WHAT PRICE (market price or limit price).

▼

4 **Order execution on the stock exchange**
Broker's trading terminal sends order to NSE/BSE. If a matching sell order exists → trade executed. Investor gets a Contract Note.

▼

5 **Settlement — T+1 (shares and money exchanged)**
In T+1 settlement: Next working day after trade date (T), shares transferred to buyer's demat account and money to seller's bank account.

EXAMPLE

Full example: Vishv wants to buy 50 shares of Infosys.

Step 1: He has a Zerodha account (registered broker). Step 2: He has a Zerodha demat + trading account. Step 3: He places a market order for 50 Infosys shares on Zerodha app. Step 4: Order reaches NSE, matched with someone selling 50 Infosys at same price — trade done in milliseconds. Step 5: Next working day, 50 Infosys shares appear in his demat account; money debited from his bank.

Topic 5 SEBI — Securities and Exchange Board of India

A. Background and Establishment

Fact	Detail
Full form	Securities and Exchange Board of India
Set up as non-statutory body	1988
Given statutory status (Act passed)	1992 (SEBI Act, 1992)
Headquarters	Mumbai (Bandra Kurla Complex)
Type of organisation	Autonomous statutory body — independent regulatory authority
Reason for establishment	Protect investor interests + regulate growing capital market + promote development of securities market

B. Objectives of SEBI

SEBI's three primary objectives — think **'P-D-R' = Protect, Develop, Regulate'**

12. **Protect investors' interests** — ensure investors are not cheated, misled, or exploited.
13. **Promote development** — develop the securities market — make it deeper, wider, more efficient.
14. **Regulate the securities market** — create rules, register intermediaries, enforce compliance.

C. Functions of SEBI — 3 Categories

These **3 categories with detailed functions** are THE **most tested topic in this chapter** — 5-mark or 6-mark question almost every year.

CATEGORY 1: PROTECTIVE FUNCTIONS

Protective functions = SEBI acting as a **SHIELD** for investors — preventing fraud, manipulation, and unfair practices.

1. Checking price rigging

SEBI monitors stock prices and investigates any artificial manipulation of prices — such as a group of operators creating artificial high demand to push a stock price up, then selling at the top (pump and dump).

Example: SEBI has penalised multiple operators for coordinating artificial price spikes in small-cap stocks to defraud retail investors.

2. Prohibiting insider trading

Insider trading = using non-public, privileged information (not available to ordinary investors) to trade in securities. SEBI strictly prohibits this — company executives, board members, and their relatives cannot trade based on unreleased information.

Example: If a CEO knows the company will announce record profits next week, they CANNOT buy shares this week before the announcement — that would be insider trading. SEBI penalises heavily — up to ₹25 crore fine or 10 years imprisonment.

3. Prohibiting fraudulent and unfair trade practices

SEBI prohibits: (a) making false statements, (b) misleading advertisements about securities, (c) front-running (broker trading ahead of client), (d) circular trading (creating artificial volume).

Example: A company claiming false profits in its financial statements to raise its IPO price is a fraudulent trade practice. SEBI can cancel the IPO and penalise the company.

4. Educating investors

SEBI runs the 'Investor Awareness Programme' — financial literacy campaigns, seminars, online resources — to teach investors their rights, risks, and how to protect themselves.

Example: SEBI's website has complaint portals (SCORES), investor guides, glossaries, and 'Saa-Thi' chatbot for investor education.

5. Promoting fair practices and code of conduct

SEBI sets codes of conduct for all market intermediaries — brokers, merchant bankers, rating agencies. All must follow ethical standards.

Example: Mutual fund managers cannot invest in a stock that their fund is about to buy (personal gain before client gain) — violates SEBI's code.

CATEGORY 2: DEVELOPMENTAL FUNCTIONS

Developmental functions = SEBI acting as a **GROWTH PROMOTER** — making the capital market more efficient, deeper, and investor-friendly.

1. Training of intermediaries

SEBI ensures that brokers, sub-brokers, merchant bankers, portfolio managers, and other intermediaries are properly trained and certified before being registered.

Example: SEBI requires brokers to pass NISM (National Institute of Securities Markets) certifications before being allowed to operate.

2. Research and information dissemination

SEBI conducts research on market development, publishes annual reports, working papers, and market data — improving market transparency and efficiency.

Example: SEBI's 'SEBI Bulletin' publishes monthly market statistics, enforcement actions, and policy updates — freely available to all.

3. Promoting technology in the securities market

SEBI encouraged the shift to electronic trading (no physical trading floors), demat accounts (no physical share certificates), and online IPO applications (ASBA/UPI).

Example: Before 1993, all trading was on physical trading floors — chaotic. SEBI pushed NSE to adopt electronic trading in 1994 — India became one of the world's most technologically advanced exchanges.

4. Allowing flexibility in market structure

SEBI permitted new instruments (derivatives, ETFs, SLB — Securities Lending and Borrowing) and new market structures to develop the market depth and breadth.

Example: SEBI allowed futures and options trading in India in 2001 — transformed hedging and risk management for institutional investors.

CATEGORY 3: REGULATORY FUNCTIONS

Regulatory functions = SEBI acting as a **RULE MAKER and ENFORCER** — creating and enforcing rules for all market participants.

1. Registration of market intermediaries

SEBI registers all market participants: brokers, sub-brokers, merchant bankers, investment advisers, mutual funds, portfolio managers, depository participants. No one can operate without SEBI registration.

Example: Zerodha is a SEBI-registered broker (Registration No. INZ000031633). Without this registration, Zerodha cannot legally execute trades.

2. Regulating stock exchanges and their operations

SEBI regulates the operations of BSE and NSE — their listing rules, trading hours, circuit breakers, settlement procedures, and governance.

Example: SEBI introduced 'Circuit breakers' — if Nifty falls more than 10%, trading is halted for 45 minutes. This is SEBI's regulatory mechanism to prevent panic selling.

3. Levying fees and penalties

SEBI can levy registration fees, investigation fees, and impose penalties (fines and imprisonment) on those who violate securities laws.

Example: SEBI fined Adani Group companies ₹3.19 crore in 2021 for non-disclosure violations. SEBI fined MCX promoter Jignesh Shah ₹1 crore for regulatory breaches.

4. Conducting inquiries, inspections, and audits

SEBI has the power to inspect the books and records of any market participant and conduct investigations into suspected violations.

Example: SEBI investigated the alleged market manipulation of Yes Bank shares (2020) and penalised brokers who created artificial trading volumes.

5. Regulating mutual funds

SEBI regulates mutual funds — their registration, investment norms, disclosure requirements, and investor protection. All AMCs (Asset Management Companies) must follow SEBI's Mutual Fund Regulations.

Example: SEBI mandates that mutual fund expense ratios do not exceed certain limits. It banned upfront commissions to distributors (2018) — preventing mis-selling to retail investors.

MEMORY TRICK

Trick for SEBI's 3 categories — "P-D-R":

P — Protective functions (shield investors)

D — Developmental functions (grow the market)

R — Regulatory functions (make and enforce rules)

Story: "SEBI Protects, Develops, and Regulates — like a good government should."

Section 7 Critical Difference Tables

7.1 Money Market vs Capital Market — Most Important Table

This **difference table appears almost every CBSE board exam** as a 4-5 mark question.

Basis of Difference	Money Market	Capital Market
Meaning	Market for short-term funds (less than 1 year).	Market for long-term funds (more than 1 year).
Instruments traded	T-Bills, Commercial Paper, Call Money, Certificate of Deposit, Commercial Bills.	Equity shares, preference shares, debentures, bonds.
Maturity of instruments	Less than 1 year (as short as 1 day in call money).	More than 1 year (can be 5, 10, 20+ years).
Risk	Generally lower — most instruments government-backed.	Higher — depends on market conditions and company performance.
Return	Lower returns (safer).	Higher returns (but with higher risk).
Liquidity	Highly liquid — instruments easily converted to cash.	Less liquid than money market, but stock exchange provides secondary liquidity.
Participants	RBI, commercial banks, government, large corporates.	Companies, investors, brokers, SEBI, FIIs, mutual funds.
Institutions	No specific physical institution — OTC and electronic.	Stock Exchange (BSE, NSE) — formal, organised institution.
Purpose	Meet short-term liquidity needs of government and banks.	Meet long-term capital requirements of businesses.
Regulation	Regulated by RBI.	Regulated by SEBI.

7.2 Primary Market vs Secondary Market

Basis	Primary Market	Secondary Market
Meaning	New securities are created and sold for the first time.	Already-issued securities are traded between investors.
Who gets money?	The company (issuer) — receives fresh capital.	The selling investor — company gets nothing.

Basis	Primary Market	Secondary Market
Type of transaction	Between company and investor (first-hand).	Between investor and investor (second-hand).
Price	Fixed — set by company in prospectus.	Fluctuates — determined by market supply and demand.
Formal institution	No specific building — happens through banks, broker applications.	Specific institution — Stock Exchange (BSE, NSE).
Example	Zomato's IPO in 2021 — first time shares issued.	Buying Zomato shares on NSE after listing — secondary market.

Section 9 All Memory Tricks at One Place

Topic	Trick	Expansion
5 Functions of Financial Markets	M-P-L-C-R	Mobilise savings, Price discovery, Liquidity, Cost reduction, Risk transfer
5 Money Market instruments	T-C-C-C-C	Treasury Bills, Commercial Paper, Call Money, Certificate of Deposit, Commercial Bill
5 Flotation methods (Primary Market)	P-O-P-R-E	Public Issue, Offer for Sale, Private Placement, Rights Issue, e-IPO
6 Functions of Stock Exchange	C-P-S-E-S-S	Continuous market, Price determination, Safety, Economic growth, Spread equity cult, Speculation
Trading Procedure (5 steps)	B-D-O-E-S	Broker selection, Demat/trading account, Order placing, Execution, Settlement
SEBI 3 functions	P-D-R	Protective, Developmental, Regulatory

Section 10 Case Study Practice

Case Study 1 — Easy (Identify the Instrument)

CASE STUDY

Case: Identify the money market instrument in each situation below:

(a) The Central Government needs ₹10,000 crore for 91 days. RBI issues short-term zero-coupon securities at a discount.

(b) Tata Motors needs ₹500 crore for 60 days to finance raw material imports. It issues an unsecured promissory note to large institutions.

(c) SBI has a temporary surplus of ₹200 crore at end of Monday. It lends to PNB overnight at the prevailing interbank rate.

(d) HDFC Bank issues a time deposit instrument to a mutual fund for 6 months at 7.5% — the fund can sell this to another investor before maturity.

(e) A cotton mill sells cloth worth ₹50 lakh to a retailer on 90-day credit and issues a written financial instrument. The mill later discounts it with its bank for immediate cash.

Answers:

(a) **Treasury Bill** — Govt short-term, zero-coupon, issued by RBI at discount.

(b) **Commercial Paper** — Corporate short-term, unsecured promissory note, issued to institutions.

(c) **Call Money** — Interbank overnight lending.

(d) **Certificate of Deposit** — Bank issues negotiable time deposit to MF.

(e) **Commercial Bill** — Trade credit instrument, discountable with bank.

Mistake to avoid: Students confuse T-Bills and Commercial Paper (both are short-term, both issued at discount). Key: T-Bills = Government issuer. CP = Corporate issuer.

Case Study 2 — Moderate (Primary Market Methods)

CASE STUDY

Case: Identify the method of flotation in each case below:

(a) 'TechNova Ltd.' is a startup preparing to go public for the first time. It files a prospectus with SEBI, announces its IPO price band as ₹100-110, and invites the general public to apply online.

(b) A private equity firm that invested in 'GreenGrow Ltd.' 5 years ago decides to sell its 20% stake to the public through a stock exchange listing.

(c) 'Mega Corp Ltd.' decided to raise ₹1,000 crore by offering shares directly to 5 mutual funds and 3 insurance companies at a fixed price.

(d) 'Sunrise Pharma Ltd.' gives its current shareholders the option to buy 1 new share for every 4 shares they already hold, at 15% below the current market price.

(e) 'DigiBank Ltd.' invited investors to apply for its IPO entirely through the UPI payment system without any physical forms.

Answers:

(a) **Public Issue through Prospectus (IPO)** — first-time public issue, prospectus filed, public invited.

(b) **Offer for Sale** — existing PE firm selling its stake to public, not company raising fresh capital.

(c) **Private Placement** — securities sold to select institutional investors, not general public.

(d) **Rights Issue** — existing shareholders offered new shares proportionately at discount.

(e) **e-IPO** — IPO application through electronic/UPI route.

Keywords: IPO, offer for sale, private placement, rights issue, e-IPO, prospectus, UPI, ASBA.

Case Study 3 — Difficult / HOTS (SEBI Functions)

CASE STUDY

Case: Read the following situations and identify the SEBI function (with category — Protective, Developmental, or Regulatory):

(a) SEBI found that Mr. Raj, the CFO of 'SunTech Ltd.', had bought 50,000 shares of his company 3 days before it announced a major acquisition (which was not yet public knowledge). He made ₹75 lakh profit.

(b) SEBI mandated that all broker certification exams would be conducted through NISM — raising the quality of registered brokers.

(c) SEBI cancelled the registration of a sub-broker who had executed 3,000 trades without client consent, earning ₹40 lakh in unauthorised brokerage.

(d) SEBI conducted investor awareness workshops in 50 cities on 'how to identify genuine IPOs vs fraudulent schemes'.

(e) SEBI noticed that a group of brokers were artificially inflating the price of a penny stock from ₹2 to ₹180 through circular trading. SEBI ordered an investigation and froze their accounts.

Answers:

(a) **Prohibiting Insider Trading** — Protective function. Mr. Raj used non-public information to trade. SEBI would penalise under SEBI (PIT) Regulations.

(b) **Training of intermediaries** — Developmental function. SEBI developed the capital market by raising broker quality through NISM certification.

(c) **Conducting inquiries and cancelling registration** — Regulatory function. SEBI exercised its enforcement powers against the errant sub-broker.

(d) **Educating investors** — Protective function. SEBI's investor awareness programmes protect investors by improving financial literacy.

(e) **Checking price rigging / fraudulent trade practices** — Protective function. Circular trading to inflate a stock price = price manipulation. SEBI investigation + account freeze = correct enforcement.

Section 11 Exam-Oriented Questions & Answers

A. One-mark Questions

Q1. Define financial market.

Ans. A market for creation and exchange of financial assets like shares, debentures, and government securities.

Q2. What is a money market?

Ans. A market for short-term funds (maturity less than 1 year) such as Treasury Bills, Call Money, and Commercial Paper.

Q3. Who issues Treasury Bills?

Ans. RBI (Reserve Bank of India) on behalf of the Central Government.

Q4. What is insider trading?

Ans. Using non-public, privileged information about a company to trade in its securities for personal gain.

Q5. What does SEBI stand for?

Ans. Securities and Exchange Board of India.

Q6. What is a demat account?

Ans. A Dematerialised account that holds securities (shares, bonds) in electronic form — no physical certificates.

Q7. What is Sensex?

Ans. Sensex is the stock market index of the top 30 companies listed on the Bombay Stock Exchange (BSE).

Q8. Name any two methods of flotation in the primary market.

Ans. Public Issue (IPO/FPO) and Rights Issue (or any two from the five methods).

B. Three-mark Questions

Q1. Explain any three functions of SEBI.

Ans. (i) Prohibiting Insider Trading (Protective) — SEBI strictly prohibits trading based on non-public information. Directors, employees, and their relatives cannot trade in company securities using unpublished price-sensitive information.

Ans. (ii) Training of intermediaries (Developmental) — SEBI ensures that all market intermediaries (brokers, merchant bankers) are trained and certified through NISM examinations before being registered.

Ans. (iii) Registration of intermediaries (Regulatory) — SEBI registers all market participants including brokers, sub-brokers, mutual funds, and investment advisers. No intermediary can operate without SEBI registration.

Q2. Distinguish between Primary Market and Secondary Market on any three bases.

Ans. (i) Nature of issue: Primary market deals in new (fresh) securities issued for the first time. Secondary market deals in already-issued securities traded between investors.

Ans. (ii) Who receives money: In primary market, the company receives the money (fresh capital raised). In secondary market, the selling investor receives money — company gets nothing.

Ans. (iii) Price determination: In primary market, price is fixed by the company in the prospectus. In secondary market, price is determined by supply and demand continuously.

Q3. Explain the meaning and features of 'Call Money'.

Ans. Call Money is very short-term borrowing and lending between commercial banks — for 1 to 15 days — to meet temporary liquidity shortfalls.

Ans. Features: (i) Exclusively interbank — only commercial banks participate. (ii) Very short maturity — overnight to 15 days. (iii) Used to meet CRR (Cash Reserve Ratio) requirements with RBI. (iv) No collateral required — clean money transaction.

Ans. Example: If Bank A ends the day with surplus cash and Bank B is short of its CRR requirement, Bank A lends to Bank B overnight at the prevailing call rate.

C. Five & Six-mark Questions

Q1. Describe the functions of SEBI in detail (any five).

Ans. SEBI performs three types of functions — Protective, Developmental, and Regulatory:

Protective:

(i) **Prohibiting Insider Trading** — Directors and employees cannot use unpublished price-sensitive information to trade. Example: A CEO cannot buy shares before announcing good results.

(ii) **Checking Price Rigging** — SEBI investigates artificial price manipulation — operators creating false demand to push prices up and then sell at top.

(iii) **Educating Investors** — Investor awareness programmes, seminars, and the SCORES complaint portal protect and empower investors.

Developmental:

(iv) **Training of Intermediaries** — NISM certification mandatory for brokers — raises quality of market participants.

(v) **Promoting Technology** — SEBI pushed electronic trading, demat accounts, and online IPO (ASBA/UPI) — modernising India's capital market.

Regulatory:

(vi) **Registration of Intermediaries** — All brokers, merchant bankers, and mutual funds must register with SEBI and follow its rules.

Conclusion: SEBI's three-pronged approach — Protect + Develop + Regulate — makes India's capital market safe, efficient, and investor-friendly.

Q2. Differentiate between Money Market and Capital Market on any five bases.

Ans.

- **Time horizon:** Money market: short-term (< 1 year). Capital market: long-term (> 1 year).
- **Instruments:** Money market: T-Bills, CP, Call Money, CD, Commercial Bills. Capital market: equity shares, debentures, bonds.
- **Risk and return:** Money market: low risk, lower return. Capital market: higher risk, potentially higher return.
- **Participants:** Money market: RBI, banks, government, large corporates. Capital market: companies, retail investors, FIIs, mutual funds, SEBI.
- **Regulation:** Money market: regulated by RBI. Capital market: regulated by SEBI.

D. MCQs

Q1. Which market deals in short-term financial instruments?

(a) Capital market

(b) Money market

(c) Primary market

(d) Secondary market

Ans. (b) Money market — deals in instruments with maturity less than 1 year.

Q2. Treasury Bills are issued by —

(a) Commercial banks

(b) Large corporates

(c) RBI on behalf of Central Government

(d) SEBI

Ans. (c) RBI on behalf of the Central Government.

Q3. Which of the following is a PROTECTIVE function of SEBI?

(a) Training intermediaries

(b) Registering stock exchanges
(c) Prohibiting insider trading
(d) Promoting technology

Ans. (c) Prohibiting insider trading — a protective function.

Q4. In an IPO, money raised goes to —
(a) The selling shareholders
(b) Stock exchange
(c) The company (issuer)
(d) SEBI

Ans. (c) The company (issuer) — IPO raises fresh capital for the company.

Q5. T+1 settlement in stock market means —
(a) Trade must be placed 1 day in advance
(b) Settlement happens 1 working day after the trade date
(c) Only 1 trade allowed per day
(d) Settlement takes 1 month

Ans. (b) Settlement happens 1 working day after the trade date — shares credited to buyer's demat account next business day.

E. Assertion-Reason

Q. Assertion (A): The Secondary Market does not provide fresh capital to the company.

Reason (R): In the secondary market, trading occurs between investors — the company is not a party to the transaction.

Options: (a) Both A and R true, R correctly explains A. (b) Both A and R true, R does NOT explain. (c) A true, R false. (d) A false, R true.

Ans. (a) — Both true. R correctly explains why A is true. In secondary market transactions, investors buy from other investors. The company has already received money when it first issued shares in the primary market.

Section 12 Board Exam Answer Writing Guide

Case-study trigger table — identify the concept quickly

If case says...	Concept / Instrument
Government borrowing for 91/182/364 days at discount	Treasury Bill (T-Bill)
Corporate issuing unsecured promissory note for 90 days	Commercial Paper
Bank borrowing from another bank overnight / 1-15 days	Call Money
Bank issuing negotiable time deposit to mutual fund	Certificate of Deposit (CD)
Trade credit bill, seller discounts it with bank	Commercial Bill
Company issuing shares for first time to public	Primary Market — IPO (Public Issue)
PE firm selling existing stake to public	Primary Market — Offer for Sale
Shares sold to select institutions, not public	Private Placement
Existing shareholders get new shares at discount	Rights Issue
Buying/selling already-listed shares on NSE/BSE	Secondary Market / Stock Exchange
Company executive buying shares before announcement	Insider Trading — SEBI Protective function
Artificial price inflation through coordinated buying	Price Rigging — SEBI Protective function
Broker required to pass NISM exam before registration	SEBI Developmental function
Broker's registration cancelled for fraud	SEBI Regulatory function
Shares credited to buyer's demat account next day	T+1 Settlement — Trading Procedure Step 5

EXAM TIP

Smit Sir's rule for SEBI questions: Before writing 'SEBI functions', first label which CATEGORY each function belongs to. Write the category heading in CAPITALS or underlined. Example: 'PROTECTIVE FUNCTION — Prohibiting Insider Trading...'. This structured approach shows the examiner you know the classification.

For 6-mark SEBI answer: Write 2 Protective + 2 Developmental + 2 Regulatory = 6 functions. One line definition + one Indian example per function. That is a complete, well-structured 6-mark answer.

Section 13 Common Doubts Students Ask

Doubt 1: Sir, what is the difference between T-Bills and Commercial Paper?

Smit Sir's answer: Both are issued at discount for short-term. Key difference: T-Bills = issued by RBI/Government (zero risk). CP = issued by large private corporations (unsecured, some risk). Think: T = Treasury = Government. CP = Company Paper = Corporate.

Doubt 2: Sir, how is Certificate of Deposit different from a Fixed Deposit?

Smit Sir's answer: FD = bank savings product, cannot be sold to someone else. CD = money market instrument, can be SOLD in the secondary market before maturity (negotiable). Both pay interest, but CD is tradeable — FD is not.

Doubt 3: Sir, what exactly happens in 'Offer for Sale'? The company doesn't get money?

Smit Sir's answer: Correct — the company gets NOTHING in Offer for Sale. The selling shareholders (usually PE investors, early investors, or promoters partially exiting) get the money. The shares already existed — they are just changing ownership through the public.

Doubt 4: Sir, what is the difference between IPO and FPO?

Smit Sir's answer: IPO = Initial Public Offering = FIRST time the company sells shares to the public. FPO = Follow-on Public Offering = SUBSEQUENT issue of shares by a company already listed. Both are primary market transactions, both involve fresh capital to the company.

Doubt 5: Sir, if secondary market trading doesn't give money to companies — why do companies care about their share price?

Smit Sir's answer: Great question. Companies don't get direct money from secondary trading — but share price matters because: (1) If they want to do an FPO in future, higher current price = they raise more money. (2) CEO pay is often linked to share price (stock options). (3) High share price = company can use shares as currency to acquire other companies. (4) Investor confidence affects future fund-raising ability.

Doubt 6: Sir, is SEBI the same as RBI?

Smit Sir's answer: No. RBI (Reserve Bank of India) regulates BANKS and the MONEY MARKET. SEBI (Securities and Exchange Board of India) regulates CAPITAL MARKETS (stocks, bonds, mutual funds). Money market = RBI. Capital market = SEBI. Different regulators, different domains.

Doubt 7: Sir, what is the difference between Sensex and Nifty?

Smit Sir's answer: Sensex = BSE's index of TOP 30 companies. Nifty (Nifty 50) = NSE's index of TOP 50 companies. Both measure market performance. Sensex = older (1986). Nifty = newer (1995). Both move together roughly, but Nifty covers more companies.

Doubt 8: Sir, what is T+1 settlement?

Smit Sir's answer: T = Trade date (when you buy or sell). T+1 = next working day after the trade. On T+1, the buyer's demat account gets the shares and the seller's bank account gets the money. India moved from T+2 to T+1 in January 2023 — one of the fastest settlement systems globally.

Doubt 9: Sir, why is 'speculation' listed as a function of stock exchange? Isn't speculation bad?

Smit Sir's answer: Regulated speculation is BENEFICIAL. Speculators provide liquidity — they are always willing to buy or sell, which makes it easy for genuine long-term investors to enter and exit. Without speculators, markets would be thin and illiquid. The issue is EXCESSIVE speculation (gambling). Moderate, regulated speculation helps price discovery and liquidity.

Doubt 10: Sir, can retail investors invest in Treasury Bills?

Smit Sir's answer: Technically yes — RBI's Retail Direct platform (launched 2021) allows retail investors to buy T-Bills directly. But T-Bills are primarily institutional instruments — the minimum amount (₹25,000) and short maturity (91 days) make them less popular with retail investors than FDs or mutual funds.

Section 14 Common Mistakes to Avoid

Mistake 1: Confusing T-Bills and Commercial Paper

What students do wrong: 'Commercial Paper is issued by the government.'

Why it is wrong: T-Bills = government. CP = large private companies. Both are short-term, both at discount — but issuer is completely different.

Correct way: Remember: T = Treasury = Government. CP = Corporate / Company.

Mistake 2: Not categorising SEBI functions correctly

What students do wrong: Writing all SEBI functions in one list without labelling Protective/Developmental/Regulatory.

Why it is wrong: CBSE marks the categorisation. An answer without categories misses structure marks.

Correct way: ALWAYS write: 'SEBI performs three types of functions — (A) Protective: ... (B) Developmental: ... (C) Regulatory: ...'

Mistake 3: Saying companies receive money in secondary market

What students do wrong: 'When shares of Reliance are traded on NSE, Reliance gets the money.'

Why it is wrong: WRONG. In secondary market, money flows BETWEEN INVESTORS. Reliance got money when it first issued shares in the primary market. NSE transactions are between buyer-investor and seller-investor only.

Correct way: Primary market = company receives money (first issue). Secondary market = investor receives money (resale).

Mistake 4: Confusing Functions of Financial Markets with Functions of Stock Exchange

What students do wrong: Listing the 6 functions of stock exchange when asked 'functions of financial market'.

Why it is wrong: Financial market functions = mobilise savings, price discovery, liquidity, cost reduction, risk transfer. Stock exchange functions = continuous market, price determination, safety, economic growth, equity cult, speculation. Different lists.

Correct way: Financial markets = broader concept (5 functions). Stock exchange = specific institution within secondary market (6 functions).

Mistake 5: Mixing up Call Money and Certificate of Deposit

What students do wrong: 'CD is only for banks; CD is also an interbank overnight instrument.'

Why it is wrong: Call Money = ONLY between banks, overnight, no collateral. CD = issued BY banks TO anyone (mutual funds, individuals), minimum 7 days, negotiable.

Correct way: Call Money = interbank overnight. CD = bank issues to any investor, tradeable.

Mistake 6: Forgetting that Rights Issue is to EXISTING shareholders

What students do wrong: 'Rights Issue = offering shares to the public at a discounted price.'

Why it is wrong: Rights Issue is EXCLUSIVELY for EXISTING shareholders — not the general public.

Correct way: Rights Issue = your existing shareholders get the RIGHT to buy MORE shares in proportion to their holding, at a discounted price.

Section 15 Keywords Bank

Topic	Must-use Keywords
Financial Markets	creation and exchange, financial assets, mobilise savings, price discovery, liquidity, risk transfer
Money Market	short-term, less than 1 year, highly liquid, RBI, banks, T-Bills, commercial paper, call money
T-Bills	government securities, RBI, 91/182/364 days, zero coupon, issued at discount, zero default risk
Commercial Paper	unsecured, promissory note, large corporates, 7 days to 1 year, disintermediation
Call Money	interbank, overnight, 1-15 days, CRR, no collateral, call rate
Certificate of Deposit	negotiable, bank issued, 7 days to 1 year, ₹1 lakh minimum, tradeable
Commercial Bill	trade credit, bill of exchange, 90 days, discounting, seller to buyer
Capital Market	long-term, shares, debentures, bonds, primary market, secondary market
Primary Market	new issue, fresh capital, IPO, FPO, prospectus, flotation methods
Secondary Market / Stock Exchange	already-issued, between investors, BSE, NSE, Sensex, Nifty, liquidity
SEBI — Protective	insider trading, price rigging, fraudulent practices, investor education
SEBI — Developmental	training, NISM, technology, research, investor awareness
SEBI — Regulatory	registration, inspection, penalties, regulate stock exchange, mutual funds

Section 16 Quick Revision Notes

QUICK REVISION

Financial Markets = Where financial assets (shares, bonds) are created and traded. Functions (M-P-L-C-R): Mobilise savings, Price discovery, Liquidity, Cut costs, Risk transfer.

Money Market = Short-term funds (< 1 year). Instruments (T-C-C-C-C): Treasury Bills (Govt, 91-364 days), Commercial Paper (Corporates, unsecured), Call Money (Interbank overnight), Certificate of Deposit (Bank, negotiable), Commercial Bill (Trade credit).

Capital Market = Long-term funds (> 1 year). Two parts:

• **Primary Market:** New issues. 5 methods (P-O-P-R-E): Public Issue (IPO/FPO), Offer for Sale (existing shares), Private Placement (institutions only), Rights Issue (existing shareholders), e-IPO (online).

• **Secondary Market / Stock Exchange:** Already-issued securities. BSE (Sensex 30), NSE (Nifty 50). Functions (C-P-S-E-S-S): Continuous market, Price discovery, Safety, Economic growth, Equity cult, Speculation.

Trading Procedure (B-D-O-E-S): Broker selection → Demat account → Order placing → Execution → T+1 Settlement.

SEBI = Statutory body (1992). Three functions (P-D-R):

Protective: Insider trading prohibition, Price rigging check, Fraudulent practices ban, Investor education.

Developmental: Training (NISM), Research, Technology promotion.

Regulatory: Register intermediaries, Regulate stock exchanges, Levy penalties, Conduct inspections, Regulate mutual funds.

Money Market vs Capital Market: Time, instruments, risk, return, regulation (RBI vs SEBI).

Section 17 One-Page Last-Minute Revision Sheet

Read this on exam day. Nothing else.

Chapter in one paragraph

Financial markets connect savers to borrowers — through the **Money Market** (short-term: T-Bills, CP, Call Money, CD, Commercial Bills) and the **Capital Market** (long-term: Primary Market for new issues through 5 flotation methods P-O-P-R-E, and Secondary Market / Stock Exchange for trading of existing securities). Stock exchanges have **6 functions (C-P-S-E-S-S)** and a **5-step trading procedure (B-D-O-E-S)**. **SEBI** (statutory since 1992) regulates capital markets through **3 categories of functions — Protective (P), Developmental (D), Regulatory (R)**.

5 must-remember lines

15. T-Bills = Government borrowing (RBI). Commercial Paper = Corporate borrowing. Both at discount.
16. Primary market: company gets money. Secondary market: investor gets money (company gets nothing).
17. Rights Issue = ONLY for existing shareholders, at discount. Private Placement = ONLY for institutions.
18. Money Market regulated by RBI. Capital Market regulated by SEBI.
19. SEBI functions = Protective (shield) + Developmental (grow) + Regulatory (rules). P-D-R.

Quick case-study trigger table

If case says...	Answer
Government, 91-day, discount, zero risk	Treasury Bill
Corporate, unsecured promissory note, 60-90 days	Commercial Paper
Bank to bank, overnight, CRR requirement	Call Money
Bank issues negotiable time deposit, tradeable	Certificate of Deposit
Trade credit, bill discounted with bank	Commercial Bill
Company IPO, first time, prospectus, public	Primary Market — Public Issue (IPO)
Existing PE firm selling stake to public	Offer for Sale
Shares to select mutual funds only	Private Placement

If case says...	Answer
Existing shareholders get extra shares at discount	Rights Issue
Online application, UPI, no physical forms	e-IPO
Secondary market trading, NSE, BSE	Stock Exchange
CEO buys shares before company announcement	Insider Trading — SEBI Protective
Stock price artificially inflated by operator group	Price Rigging — SEBI Protective
Broker must clear NISM exam to register	SEBI Developmental — Training
Broker registration cancelled for fraud	SEBI Regulatory — Enforcement

Section 18 How Smit Sir Can Teach This Chapter

1. Best way to introduce the chapter

Write two names on the board: 'SHARMA JI (₹10 lakh, no idea what to do)' and 'PRIYA (brilliant idea, no money)'. Ask: 'How do these two people find each other safely and profitably?' Every answer the class gives IS a financial market function. Then reveal — 'This is what the financial market does for 140 crore Indians every single day.'

2. Best Indian examples by topic

Topic	Best Indian Example
Treasury Bill	RBI's weekly T-Bill auctions — government raises lakhs of crore through these. Show students the RBI website's T-Bill section.
Commercial Paper	Reliance or HDFC issuing CP to mutual funds instead of bank loans — cheaper, faster, no bank needed.
IPO	Zomato IPO (2021) — first Indian food-tech IPO. Students know Zomato. Show how they applied, what happened on listing day.
SEBI — Insider Trading	Satyam scandal (2009) — promoter Ramalinga Raju inflated profits for years. SEBI investigation, arrest. Connects SEBI's protective role to real consequences.
Stock Exchange	Show live NSE/BSE website on projector. Let students see real-time prices, Nifty index, circuit breakers. Makes the theory tangible.
Sensex/Nifty	2008 crash: Sensex fell from 21,000 to 8,000. COVID crash (2020): fell from 41,000 to 25,000. Recovered to 80,000+ by 2024. Shows market recovery and economic story.

3. Classroom activity

'Financial Market Simulation' (15 min): Give each student a card: some are 'savers with ₹10,000', some are 'companies needing ₹1 lakh'. Ask them to find each other and agree on terms (interest rate, time period, instrument type). Chaos without rules = the need for SEBI. Then introduce 'SEBI rules' — only registered broker cards can intermediate, price must be declared publicly. Watch the market organise itself. The entire chapter is experienced in 15 minutes.

4. Board exam focus areas

- SEBI functions (3 categories) — 5/6-mark question, almost every year
- Money Market vs Capital Market difference — 4/5-mark question
- Primary Market methods of flotation — 4/5-mark question
- Functions of Stock Exchange — 4/5-mark question
- Money Market instruments (explain any 2-3) — 4-mark question

5. How to end the chapter powerfully

"When you earn your first salary, you will park it somewhere — FD, mutual fund, or shares. That decision involves exactly the markets you studied today: money market (FD), capital market (mutual fund/shares). And SEBI makes sure that wherever you put your money, no one can steal it illegally. This chapter is not just theory — it's the framework of every financial decision you will ever make."

End of Chapter 10

"An investment in knowledge pays the best interest." *— Benjamin Franklin*

Understand the market. Protect your money. Build your future.

PREPARED BY

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