



**K. K. Wagh Institute of Engineering Education and Research,  
Nashik**

(An Autonomous Institute from A. Y. 2022-23)

**End-Sem Examination-I, Winter 2025**

Exam Seat No.:	
Academic Year: 2025-2026	Semester: III
Class:PG-II	Program:MBA
Branch Code: 10	Pattern:2024
Name of Course: Indian Financial systems and Financial Markets	Course Code: 2410614B
Max. Marks: 60*	Duration: 2:30 Hrs.

Q. No.	Details	Max. Marks	CO No.	BT Level
Q. 1	<p><b><u>Nature / Characteristics</u></b></p> <p>1. <b><u>Intermediary Role:</u></b> Links savers and borrowers, channelizing funds into productive uses.</p> <p><b><u>Example:</u></b></p> <p><b>Scenario:</b> A salaried person deposits ₹50,000 in <b>HDFC Bank</b>.</p> <ul style="list-style-type: none"><li>• The bank then lends this money as a <b>business loan</b> to a startup like <b>Zomato</b> for expansion.</li><li>• This way, the financial system transfers funds from <b>surplus units (households) to deficit units (businesses)</b>.</li><li>• <i>Think of it like a bridge carrying water (money) from a full tank (savers) to an empty tank (borrowers).</i></li></ul> <p>2. <b><u>Highly Regulated:</u></b> Controlled by authorities like <b>RBI, SEBI, IRDAI, and PFRDA</b>.</p> <p><b><u>Example:</u></b></p> <ul style="list-style-type: none"><li>• In <b>2020</b>, Yes Bank faced a financial crisis.</li><li>• <b>RBI</b> stepped in, restructured the bank, and placed restrictions on withdrawals to <b>protect depositors' money</b>.</li><li>• SEBI also regulates IPO processes to ensure <b>transparency and fair practices</b>.</li><li>• <i>Regulators act like referees in a game to ensure fair play and prevent cheating.</i></li></ul> <p>3. <b><u>Dynamic &amp; Evolving:</u></b> Continuously changes with <b>technology</b> like UPI, fintech, blockchain, etc.</p> <p><b><u>Example:</u></b></p> <ul style="list-style-type: none"><li>• <b>UPI (Unified Payments Interface)</b> revolutionized India's payment system.</li><li>• In 2016, digital payments surged after demonetization, and today India leads globally in <b>real-time digital transactions</b>.</li><li>• Platforms like <b>PhonePe, Google Pay, Paytm</b> showcase how the system adapts to changing times.</li></ul>	[6]	CO 1	BL3



<ul style="list-style-type: none"> <li>• <i>Like a smartphone that keeps updating its software, the financial system upgrades itself regularly.</i></li> </ul> <p><b>4. Multi-layered Structure :</b> The system consists of multiple interconnected layers – institutions, markets, instruments, and services.</p> <p><b><u>Example:</u></b></p> <ul style="list-style-type: none"> <li>• A company like <b>Reliance Industries</b> raises funds via <b>shares (instruments)</b> in the <b>stock market (market)</b>.</li> <li>• Investors buy these shares through <b>brokers (intermediaries)</b> using apps like Zerodha.</li> <li>• SEBI and RBI oversee the process (<b>regulatory institutions</b>).</li> <li>• <i>It's like a layered cake – each layer adds a specific flavor, and together they make the whole system complete.</i></li> </ul> <p><b>5. Promotes Economic Growth:</b> Mobilizes capital for industrial and infrastructural development.</p> <p><b><u>Example:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Startup India Scheme:</b> Financial institutions and venture capitalists fund startups like <b>Ola, Byju's, and Flipkart</b>.</li> <li>• These companies create jobs, pay taxes, and boost the <b>Indian economy</b>.</li> <li>• <i>Like fuel in a car engine, financial systems provide the energy needed for the economy to move forward.</i></li> </ul> <p><b>6. Global Integration:</b> Connected with <b>international markets</b> through FDI, FPI, and foreign trade.</p> <p><b><u>Example:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Foreign Portfolio Investors (FPIs)</b> invest heavily in Indian stock markets.</li> <li>• International events like the <b>2008 Global Financial Crisis</b> affected India's stock market.</li> <li>• <i>Like oceans connected by rivers, money flows freely between countries in today's globalized world.</i></li> </ul> <p><b>7. Risk Management:</b> Provides tools like <b>insurance and derivatives</b> to reduce financial risks.</p> <p><b><u>Example:</u></b></p> <ul style="list-style-type: none"> <li>• A farmer fears the price of wheat might fall before harvest.</li> <li>• He uses <b>commodity futures contracts</b> to lock in today's price, protecting himself from future losses.</li> <li>• Similarly, companies use <b>currency derivatives</b> to manage foreign exchange risks.</li> <li>• <i>It's like an insurance umbrella – you can't stop the rain, but you can protect yourself from getting wet.</i></li> </ul> <p><b>8. Inclusive Nature:</b> Promotes <b>financial inclusion</b> through schemes like Jan Dhan Yojana, microfinance, etc.</p>			
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	<p><b><u>Example:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Pradhan Mantri Jan Dhan Yojana (PMJDY)</b> helped open over <b>50 crore bank accounts</b> for people who never had banking access.</li> <li>• Farmers now receive subsidies and payments <b>directly in their bank accounts</b> via <b>Direct Benefit Transfer (DBT)</b>.</li> <li>• <i>Like a teacher ensuring every student in the class has a textbook, the financial system aims to include everyone.</i></li> </ul>																					
<b>Q. 2</b>	<p><b><u>i) Difference Between Cooperative Banks and RRBs</u></b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><b><u>Basis</u></b></th> <th style="text-align: left; border-bottom: 1px solid black;"><b><u>Cooperative Banks</u></b></th> <th style="text-align: left; border-bottom: 1px solid black;"><b><u>Regional Rural Banks (RRBs)</u></b></th> </tr> </thead> <tbody> <tr> <td><b>Ownership</b></td> <td>Owned by members (cooperative society)</td> <td>Jointly owned by Govt. of India, State Govt., and Sponsor Bank</td> </tr> <tr> <td><b>Objective</b></td> <td>Mutual help and welfare</td> <td>Rural development through banking</td> </tr> <tr> <td><b>Area of Operation</b></td> <td>Mainly local (district/state level)</td> <td>Regional (covering specific districts)</td> </tr> <tr> <td><b>Regulated By</b></td> <td>RBI + State Cooperative Departments</td> <td>RBI + NABARD</td> </tr> <tr> <td><b>Profit Motive</b></td> <td>Not profit-oriented</td> <td>Semi-commercial (moderate profit)</td> </tr> </tbody> </table> <p><b><u>ii) 2. Secondary Functions</u></b>            These are services banks provide in addition to their main activities.</p> <p>(a) Agency Functions</p> <ul style="list-style-type: none"> <li>• Banks act as agents of customers and perform financial tasks on their behalf:</li> <li>• Collecting cheques, dividends, and bills</li> <li>• Paying insurance premiums, rents, or taxes</li> <li>• Transferring funds through NEFT, RTGS, IMPS</li> <li>• Buying/selling shares and securities</li> </ul> <p>□ <i>Example:</i> You give a cheque to your bank; it collects the amount for you.</p> <p>(b) Utility Functions</p> <ul style="list-style-type: none"> <li>• Banks provide additional useful services to customers, such as:</li> </ul>	<b><u>Basis</u></b>	<b><u>Cooperative Banks</u></b>	<b><u>Regional Rural Banks (RRBs)</u></b>	<b>Ownership</b>	Owned by members (cooperative society)	Jointly owned by Govt. of India, State Govt., and Sponsor Bank	<b>Objective</b>	Mutual help and welfare	Rural development through banking	<b>Area of Operation</b>	Mainly local (district/state level)	Regional (covering specific districts)	<b>Regulated By</b>	RBI + State Cooperative Departments	RBI + NABARD	<b>Profit Motive</b>	Not profit-oriented	Semi-commercial (moderate profit)	[6]	CO 2	BL4
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	<ul style="list-style-type: none"> <li>• Providing ATM, debit, and credit cards</li> <li>• Offering safe deposit lockers for valuables</li> <li>• Issuing traveller's cheques and letters of credit</li> <li>• Offering foreign exchange services</li> <li>• Providing internet and mobile banking</li> </ul> <p>□ <i>Example:</i> You use your bank's credit card for online shopping.</p> <ul style="list-style-type: none"> <li>• <b>iii) Principles of Sound Lending:</b>  <b>To minimize risk and ensure profitability, banks follow key principles:</b></li> </ul> <p><b>Safety – Ensuring repayment of principal and interest.</b>  <b>Liquidity – Keeping funds available to meet withdrawals.</b>  <b>Profitability – Earning reasonable returns on loans.</b>  <b>Purpose – Lending for productive and legal activities.</b>  <b>Security – Obtaining adequate collateral or guarantees.</b>  <b>Diversity – Spreading risk by lending to various sectors.</b></p>			
<p><b>Q. 3</b></p>	<p>a) <b>Meaning</b>  The <b>Capital Market</b> is a part of the financial market where <b>long-term securities</b> (with maturity of more than one year) are bought and sold.  It provides <b>long-term funds</b> to businesses and governments for productive investments and development projects.</p> <p><u>Functions</u></p> <ul style="list-style-type: none"> <li>• Mobilization of long-term funds</li> <li>• Promotes investment and economic growth</li> <li>• Facilitates buying and selling of securities</li> <li>• Provides liquidity to investors</li> <li>• Channelizes savings into productive uses</li> </ul> <p><b><u>Structure of the Capital Market</u></b></p> <p><b>1. <u>Primary market</u></b></p> <p><b>Meaning:</b></p> <ul style="list-style-type: none"> <li>• The market where <b>companies issue new shares or debentures</b> for the first time to raise funds.</li> </ul> <p><b>Methods of Raising Capital:</b></p> <ul style="list-style-type: none"> <li>• <b>Initial Public Offer (IPO):</b> First-time issue of shares to the public.</li> <li>• <b>Follow-on Public Offer (FPO):</b> Issue of additional shares after IPO.</li> <li>• <b>Private Placement:</b> Sale of securities to selected investors.</li> <li>• <b>Rights Issue:</b> Offer to existing shareholders in proportion to their holdings.</li> <li>• <b>Bonus Issue:</b> Free shares issued to existing shareholders from reserves.</li> </ul> <p><b>2. <u>Secondary Market</u></b></p> <p><b>Meaning:</b></p>	<p>[16]</p>	<p>CO 3</p>	<p>BL5</p>



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- Market where **existing securities are traded** among investors.  
It provides liquidity and continuous price discovery.
- Participants:**
- Stockbrokers and traders
- Institutional investors (mutual funds, insurance companies)
- Retail investors
- SEBI and stock exchanges (regulators)

### Segment

### Description

**Primary Market (New Issue Market)**

Where new securities are issued by companies to raise fresh capital.

**Secondary Market (Stock Market)**

Where existing securities are traded among investors through stock exchanges.

### Major Instruments of the Capital Market

#### Instrument

#### Description

Equity Shares

Represent ownership in a company; shareholders get voting rights and dividends.

Preference Shares

Fixed dividend, priority over equity in payment, but limited voting rights.

Debentures

Long-term debt instruments acknowledging a loan taken by a company. Fixed interest payable.

Bonds

Issued by government or companies; safer than debentures; fixed interest income.

GDR (Global Depository Receipt)

Shares of Indian companies issued abroad in foreign currency (listed in European markets).

ADR (American Depository Receipt)

Similar to GDR but traded in the **U.S. markets**.

CCDs (Compulsorily Convertible Debentures)

Debt instruments that automatically convert into equity shares after a specified period.



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<b><u>IPO Process (Initial Public Offer)</u></b>				
<b><u>Step</u></b>	<b><u>Description</u></b>			
<b>1. Appointment of Intermediaries</b>	Company appoints merchant bankers, underwriters, registrars, legal advisors, etc.			
<b>2. SEBI Approval</b>	Draft Red Herring Prospectus (DRHP) is submitted to SEBI for approval.			
<b>3. Roadshows &amp; Publicity</b>	Company promotes the issue to attract investors.			
<b>4. Book-Building Process</b>	Price is determined based on investor bids within a price band.			
<b>5. Issue Opening &amp; Subscription</b>	Investors apply through brokers or online portals.			
<b>6. Allotment of Shares</b>	Shares are allotted based on bids; refunds for unsuccessful applicants.			
<b>7. Listing on Stock Exchange</b>	Shares get listed and traded on NSE/BSE.			
<b>OR</b>				
<p><b>b) Meaning</b>            The <b>Money Market</b> is a part of the financial market where <b>short-term funds</b> (with maturity up to <b>one year</b>) are borrowed and lent.            It provides liquidity to businesses, banks, and governments to meet their short-term financial needs.</p> <p><b><u>Role of the Reserve Bank of India (RBI) in the Money Market</u></b></p> <ul style="list-style-type: none"> <li>• <b>Regulator and Supervisor:</b> Controls and monitors the functioning of the organized money market. Issues guidelines for participants and instruments.</li> <li>• <b>Controller of Liquidity:</b> Uses monetary policy tools (Repo Rate, Reverse Repo Rate, CRR, SLR) to control liquidity.</li> <li>• <b>Issuer of Treasury Bills:</b> Issues T-bills on behalf of the government to manage short-term funds.</li> <li>• <b>Lender of Last Resort:</b> Provides emergency funds to banks through call money or repo.</li> </ul>				



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- **Maintaining Stability:** Ensures smooth functioning and prevents volatility in short-term interest rates.

**Money Market Reforms in India**

<u>Period</u>	<u>Reform / Measure</u>	<u>Impact</u>
1980s	Introduction of Treasury Bills of varying maturities	Developed short-term government securities market
1986	Establishment of <b>Discount and Finance House of India (DFHI)</b>	Improved liquidity and secondary market operations
1990s	Introduction of <b>Commercial Paper</b> and <b>Certificates of Deposit</b>	Broadened the range of instruments
1992 onwards	<b>Repo and Reverse Repo operations</b> by RBI	Better liquidity management
2000s	<b>Electronic trading platforms</b> and Real Time Gross Settlement (RTGS)	Increased transparency and efficiency
Recent years	<b>Development of money market mutual funds (MMMFs)</b>	Enhanced participation of retail investors

**c) Derivatives Market**

A **Derivative** is a financial contract whose **value is derived from an underlying asset** such as stocks, bonds, commodities, interest rates, or currencies.

Think of derivatives as **agreements about future prices**, not the asset itself.

**Types of Derivatives Contracts :**

1. Futures
2. Forwards
3. Options
4. Swaps

**Example: Price of Gold**

Assume today:

- **Gold price (spot price) = ₹60,000 per 10 grams**
- Now we imagine different people using different derivative contracts for different reasons
- **All using the SAME underlying asset (gold).**



**Futures Contract (Standardized, Exchange Traded)**

**Trader A thinks gold will go UP.**

**Trader B thinks gold will go DOWN.**

- So both enter a **Gold Futures Contract** on MCX:
- Today they fix the price = ₹60,000
- Delivery/settlement after 1 month

Both must follow the contract (obligation)

□ **After 1 Month: Gold price = ₹65,000**

- Trader A's assumption turned out right, so he buys the gold at ₹ 60000 from Trader B, who in turn has to buy it from the market at ₹ 65000.
- Market price is ₹65,000
  - **Trader A makes ₹5,000 profit**
  - **Trader B loses ₹5,000**
- **Futures compulsory hain** → You **MUST** buy or sell.

**Forward Contract (Private Deal, Customized)**

**Forward = Futures ka “private version”.**

- **Farmer & Jeweller Example (Same Gold)**
- A gold jeweller says:  
“I will buy gold next month from you at ₹60,000.”
- This is a **private agreement**, not traded on exchange.

**After 1 Month:**

- If gold becomes **₹70,000**, jeweller gains, farmer loses.  
If gold becomes **₹50,000**, farmer gains, jeweller loses.

**Difference:**

- Futures = regulated, exchange-based
- Forwards = private, customizable, but risky (default chance)

**Options Contract (Right, Not Obligation)**

- **Options = You buy the right, not the duty.**  
Let's take only **one** example for both calls and puts to make it easy.

A. **Call Option (Right to BUY)**

Suppose you expect gold to rise.

You **BUY** a **call option**:

- Strike Price = ₹60,000
- Premium = ₹1,000
- Expiry = 1 month
- This means:  
You have the **right to buy gold at ₹60,000**, even if the market price moves.

**After 1 Month:**

- Gold price = **₹65,000**

Your profit:

Buy at 60,000 → Sell at 65,000 = +5,000

Minus premium -1,000

**Net Profit = ₹4,000**



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<ul style="list-style-type: none"><li>• If price falls to ₹55,000? You simply <b>do nothing</b>. Loss = only premium (₹1,000). ✓ Limited loss ✓ Unlimited profit potential</li></ul> <p><b><u>B. Put Option (Right to SELL)</u></b> Now assume you fear gold prices may fall. You buy a <b>put option</b>:</p> <ul style="list-style-type: none"><li>• Strike Price = ₹60,000</li><li>• Premium = ₹1,000</li></ul> <p>☐ <b>After 1 Month:</b></p> <ul style="list-style-type: none"><li>• Gold price = <b>₹52,000</b></li></ul> <p>You can still sell at ₹60,000 (right). Profit = 60,000 – 52,000 = ₹8,000 Minus premium = 1,000 <b>Net profit = ₹7,000</b></p> <ul style="list-style-type: none"><li>• If price rises (65,000)? You ignore option. Loss = ₹1,000.</li></ul> <p>✓ Again, limited loss ✓ Useful for hedging</p> <p><b><u>Swaps (Exchange of Cash Flows)</u></b> <b>Scenario</b></p> <ul style="list-style-type: none"><li>• A gold importer (Company A) takes bank loan at <b>floating interest</b> (changes every 3 months). He fears rates will rise.</li><li>• A gold exporter (Company B) has <b>fixed interest</b> but wants floating.</li></ul> <p>So, they <b>swap their interest payments</b>:</p> <ul style="list-style-type: none"><li>• A pays B's fixed interest</li><li>• B pays A's floating interest</li></ul> <p>☐ Both benefit based on their expectations. This is an <b>interest rate swap</b> — commonly used by banks and large companies.</p>			
<b>OR</b>			
<p>d) <b>Derivatives Market</b> A <b>Derivative</b> is a financial contract whose <b>value is derived from an underlying asset</b> such as stocks, bonds, commodities, interest rates, or currencies. Think of derivatives as <b>agreements about future prices</b>, not the asset itself.</p> <p><b><u>Types of Derivatives Contracts :</u></b></p> <ol style="list-style-type: none"><li>1. Futures</li><li>2. Forwards</li></ol>			



3. Options

4. Swaps

**Applications of Derivatives**

- **Hedging** : Avoid loss if prices fall
- **Speculation**: Profit from guessing future prices
- **Arbitrage** : Earn from price difference in two markets

**Hedging – Reducing Risk (A hedge is like insurance)**

**Purpose:** Avoid loss if prices fall.

**Example 1: Farmer Hedging Crop Prices**

- Farmer fears wheat price will **fall** at harvest time.
- He takes **selling position in wheat futures contract** today at **₹2,000** per quintal.
- At harvest:  
Market price = **₹1,700** (fell)  
But futures contract gives him **₹2,000**.
- **Loss avoided = Hedging**  
(He protected himself from price fall.)

**Speculation – Earning Profit From Price Movements**

- Speculators take **positions** in derivatives expecting price changes.
- **Purpose:** Profit from guessing future prices.

**Example : Wheat Farmer**

- Farmer **believes** wheat price will **rise**.  
He **buys wheat futures contract** at **₹2,000**.
- Later price becomes **₹2,200**.  
He sells the futures contract.
- **Profit = ₹200 per quintal**  
(He didn't grow wheat — he just guessed price correctly.)

**ARBITRAGE (Risk-free Profit)**

- **Purpose:** Earn from price difference in two markets.

**Example : Wheat Farmer**

- Today:  
Spot (mandi) price = **₹2,000**  
Futures contract price = **₹2,150**

Farmer:

- Buys wheat in **spot** at ₹2,000
- Sells **futures contract** at ₹2,150
- Price difference = **₹150 profit per quintal**  
Guaranteed, no risk.
- **Buy low, sell high (different markets) = Arbitrage**

A **commodity market** is a place where people **buy and sell raw materials** like:

Gold,, Silver,, Crude oil,, Natural gas,, Wheat,, Cotton,, Sugar,,  
Metals like copper, aluminium etc.



	<p>These items are called <b>commodities</b> because they are basic goods used in everyday life or in industries. Think of it as a <b>big wholesale mandi</b>, but instead of vegetables and fruits, people trade big, important raw materials that the whole economy depends on.</p> <p><b><u>Role of Commodity Markets</u></b></p> <p><b><u>a) Price Discovery</u></b> Commodity exchanges bring together buyers and sellers from across the country and the world. Through continuous buying and selling, the market determines a <b>fair and transparent price</b> for each commodity. Example: The price of gold on MCX reflects global demand, supply, and economic conditions.</p> <p><b><u>b) Hedging &amp; Risk Management</u></b></p> <ul style="list-style-type: none"> <li>• Producers, exporters, importers, and traders use futures and options to <b>protect themselves from price fluctuations</b>.</li> <li>• A farmer hedges against falling crop prices.</li> <li>• A jeweller hedges against rising gold prices.</li> <li>• An oil company hedges against uncertainty in crude prices.</li> </ul> <p><b><u>c) Liquidity &amp; Ease of Trading</u></b> Commodity exchanges offer standardized contracts and high trading volumes, ensuring that buyers and sellers can enter or exit positions easily.</p> <p><b><u>d) Market Transparency</u></b> All trades happen on regulated platforms (like MCX, NCDEX) with real-time information. This reduces unfair practices, cartel behaviour, or price manipulation.</p> <p><b><u>e) Supports Economic Growth</u></b> Efficient commodity markets help:</p> <ul style="list-style-type: none"> <li>• Farmers get better price visibility</li> <li>• Businesses plan production</li> <li>• Exporters/Importers reduce risk</li> <li>• Government track supply shortages or surpluses</li> </ul> <p>Thus, commodity markets strengthen the <b>overall supply chain and national economy</b>.</p>			
<p><b>Q. 4</b></p>	<p>a) a) <b><u>1. Exchange Traded Funds (ETFs)</u></b> An Exchange Traded Fund (ETF) is a type of investment fund that holds a basket of securities—such as stocks, bonds, gold, or commodities—and is traded on stock exchanges just like shares. Types: Equity ETF, Gold ETF, Debt ETF. You can buy or sell ETFs anytime during market hours. ETF gives exposure to many securities at once (e.g., Nifty 50 ETF</p>	<p>[16]</p>	<p>CO 4</p>	<p>BL4/ 5</p>



holds 50 companies).

### **2. Real Estate Investment Trusts (REITs)**

A Real Estate Investment Trust (REIT) is a company that owns, operates, or finances income-generating real estate such as commercial buildings, office spaces, malls, warehouses, hospitals, or hotels. REITs allow people to invest in large real estate projects and earn rental income—without buying property directly. You can buy and sell REIT units just like stocks (e.g., on NSE, BSE). REITs must distribute at least 90% of their income to investors (This gives stable dividends). You can invest in real estate with a small amount (e.g., ₹10,000–₹20,000) instead of buying an entire property. EBI regulates REITs, and they must report property details and rental income regularly.

### **3. Infrastructure Investment Trusts (InvITs)**

- An Infrastructure Investment Trust (InvIT) is a collective investment vehicle that pools money from investors to own, operate, and manage infrastructure projects such as roads, highways, power transmission lines, gas pipelines, telecom towers, and renewable energy assets. InvITs allow investors to invest in large infrastructure projects (like Roads & highways, Power transmission & distribution lines, Solar and wind energy projects, Gas pipelines, Telecom towers, Railway assets) and earn regular income from them—without owning the project. InvITs must distribute **at least 90% of their net income** to investors.

Income generally comes from:

- Toll collections
- Power transmission fees

InvIT units are traded on BSE and NSE just like shares, making them **liquid investments**. A dedicated team manages the infrastructure assets to ensure steady income and long-term performance.

### **4. Green Bonds**

A **Green Bond** is a type of bond issued specifically to **raise funds for environmentally sustainable projects**, such as renewable energy, clean transportation, water management, pollution control, and climate change mitigation. Green Bonds are loans (bonds) where the money collected is used only for eco-friendly and climate-friendly projects. They can be issued by Governments, Companies, Municipalities, Financial institutions, International bodies (like World Bank). Investors earn **interest** (coupon) at regular intervals, just like normal bonds. Many Green Bonds are certified by agencies to confirm they meet environmental standards (e.g., Climate Bonds Initiative).



<p><b><u>5. ESG Instruments</u></b>  <b>ESG Instruments</b> are financial products (like funds, bonds etc) that invest in companies based on their performance in <b>Environmental, Social, and Governance (ESG)</b> areas. Investors use ESG criteria to choose companies that are not only profitable but also responsible toward society and the environment.</p> <p><b>E – Environmental</b>          How a company impacts the environment: Pollution control, Carbon emissions, Waste management, Renewable energy usage, Water conservation</p> <p><b>S – Social</b>          How a company treats people and society: Employee welfare, Workplace safety, Diversity &amp; inclusion, Community development, Customer protection</p> <p><b>G – Governance</b>          How a company is managed internally: Transparency, Board structure, Anti-corruption practices, Ethical conduct, Shareholder rights</p> <p style="color: blue;"><b>Key market signals (Dec 2025) I used for the recommendations</b></p> <ul style="list-style-type: none"> <li>• <b>Gold:</b> near a 7-week high driven by rate expectations — good indicator why gold may still have momentum as a hedge. <a href="#">Reuters</a></li> <li>• <b>FD rates:</b> Indian scheduled bank FDs currently show a wide range; small finance banks/NBFCs often offer the top rates (check comparison sites). This affects the safety/return tradeoff for short-term capital preservation. <a href="#">Paisabazaar+1</a></li> <li>• <b>ESG/Green instruments:</b> SEBI issued a framework in 2025 for ESG debt which improves disclosure and investor confidence in ESG-labelled bonds/funds. This makes ESG/green bonds more transparent now than earlier. <a href="#">Securities and Exchange Board of India+1</a></li> <li>• <b>REITs/InvITs:</b> Indian REIT distributions and market cap have been growing, while InvITs continue evolving — both are viable for income but require asset-level due diligence.</li> </ul>			
<b>OR</b>			
<p><b>b) Central Bank Digital Currency (CBDC)</b>          CBDC is digital money issued by a country’s central bank (like</p>			



<p>RBI in India). It is just like regular paper money, but in digital form. Features:</p> <ul style="list-style-type: none"> <li>• Legal tender</li> <li>• Highly secure</li> <li>• Supports digital transactions without intermediaries</li> </ul> <p>If RBI creates ₹100 in CBDC form, you can receive that ₹100 on your phone and use it just like normal money—to buy groceries, pay bills, etc.</p> <p><b><u>Artificial Intelligence (AI) in Finance</u></b>  <b>Artificial Intelligence (AI)</b> in finance means using <b>smart computer systems</b> to do financial work that normally requires human thinking — like analysing data, detecting fraud, predicting trends, or advising customers.          AI helps banks, companies, and financial markets work <b>faster, safer, and more accurately</b>.</p> <p><b><u>Used for:</u></b></p> <ol style="list-style-type: none"> <li><b>1. Fraud Detection &amp; Security :</b> AI checks thousands of transactions in seconds and identifies suspicious activity (like unusual spending). Helps prevent fraud.</li> <li><b>2. Credit Scoring &amp; Loan Decisions :</b> AI analyses customer data to decide whether a person or business is eligible for a loan.</li> <li><b>3. Algorithmic Trading :</b> AI predicts stock market trends and makes <b>fast trading decisions</b> to maximise profit.</li> <li><b>4. Customer Service (Chatbots) :</b> Banks use AI chatbots to answer customer queries 24/7.</li> <li><b>5. Risk Management :</b> AI can detect financial risks early by studying patterns and past data.</li> <li><b>6. Personalised Financial Advice :</b> AI apps suggest how to spend, save, or invest based on a person’s habits.(Example: Robo-advisors)</li> <li><b>7. Automation of Processes :</b> AI reduces paperwork, checks documents automatically, and speeds up bank operations.</li> </ol>			
<p>c) c) Financial services support individuals and businesses in managing money, raising capital, investing, risk management, and credit facilities.</p> <p><b><u>a. Traditional Financial Services</u></b></p> <p><b><u>1. Merchant Banking :</u></b> Merchant banking is professional financial advisory and service support given to companies for raising funds, managing financial projects, handling mergers, acquisitions, and providing consultancy.          Helps companies in:</p> <ul style="list-style-type: none"> <li>• IPO management</li> <li>• Corporate advisory</li> </ul>			



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<ul style="list-style-type: none"> <li>• Issue management</li> <li>• Underwriting</li> </ul> <p><b><u>2. Leasing</u></b> A contract where the lessor gives an asset for use to the lessee in return for periodic payments.</p> <p><b><u>3. Hire Purchase</u></b> Ownership transfers only after the last installment is paid.</p> <p><b><u>4. Factoring</u></b> A business sells its receivables (debtors) to a factor at a discount for immediate cash.</p> <p><b><u>5. Forfaiting</u></b> When an exporter sells goods to a foreign buyer on credit (payment after 6 months or 1 year), instead of waiting, the exporter sells that “future payment” to a forfaiter and gets <b>full payment immediately</b> (after some fees).</p> <p><b><u>b. Investment-related Services</u></b></p> <p><b><u>1. Venture Capital</u></b> Funds given to start-ups with high growth potential.</p> <p><b><u>2. Private Equity (PE)</u></b> Invests in established businesses needing expansion capital.</p> <p><b><u>3. Mutual Funds</u></b> Pool money from investors and invest in diversified portfolios. Categories: Equity, Debt, Hybrid, Index funds.</p> <p><b><u>4. Asset Management Companies (AMCs)</u></b> Companies that manage mutual funds and portfolios (e.g., HDFC AMC, SBI Funds).</p> <p><b><u>5. Credit Rating Agencies</u></b> Evaluate creditworthiness of companies and financial instruments. Examples: CRISIL, ICRA, CARE.</p>			
<b>OR</b>			
<p><b>d) Blockchain Applications</b> Blockchain is a <b>digital ledger system</b> where information is stored in blocks and cannot be easily changed. Because it is secure, transparent, and decentralised, it is used in many fields. Used in:</p> <p><b>1. Cryptocurrencies</b></p> <ul style="list-style-type: none"> <li>• Used to create and manage digital currencies like Bitcoin.</li> <li>• All transactions are recorded securely on the blockchain.</li> </ul> <p><b>2. Banking &amp; Financial Services</b></p> <ul style="list-style-type: none"> <li>• Faster cross-border payments</li> <li>• Secure money transfers</li> <li>• Reduces fraud</li> </ul> <p><b>3. Supply Chain Management</b></p>			



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	<ul style="list-style-type: none"> <li>• Tracks goods from the factory to the customer</li> <li>• Improves transparency and reduces fake products</li> <li>• Real-time tracking</li> </ul> <p><b>4. Healthcare</b></p> <ul style="list-style-type: none"> <li>• Secure storage of patient data</li> <li>• Easy sharing of records between hospitals</li> <li>• Ensures accuracy and privacy</li> </ul> <p><b>5. Voting Systems</b></p> <ul style="list-style-type: none"> <li>• Enables secure digital voting</li> <li>• Prevents tampering</li> <li>• Increases transparency and trust</li> </ul> <p><b>6. Real Estate</b></p> <ul style="list-style-type: none"> <li>• Recording property ownership</li> <li>• Preventing fraud</li> <li>• Smart contracts for buying and selling property</li> </ul> <p><b>7. Identity Management</b></p> <ul style="list-style-type: none"> <li>• Digital ID verification</li> <li>• Prevents identity theft</li> <li>• Stores personal documents securely</li> </ul> <p><b>8. Smart Contracts</b></p> <ul style="list-style-type: none"> <li>• Self-executing agreements stored on blockchain</li> <li>• No need for middlemen</li> <li>• Used in insurance, finance, real estate, etc.</li> </ul> <p><b>9. Government &amp; Public Records</b></p> <ul style="list-style-type: none"> <li>• Land records</li> <li>• Vehicle registration</li> <li>• Licenses</li> <li>• Increases security and reduces corruption</li> </ul>			
<b>Q. 5</b>	<p>a) a) <b>Payment Banks</b> Payment Banks are designed to provide accessible and affordable banking services to underserved groups such as low-income households, migrant workers, and small businesses. They can accept deposits and provide payment/remittance services but <b>cannot issue loans or credit cards</b>.</p> <p><b>Key Features :</b></p> <ol style="list-style-type: none"> <li>1. <b>Deposit Limit:</b> Can accept deposits up to ₹2 lakh per customer</li> <li>2. <b>Services Offered:</b> <ul style="list-style-type: none"> <li>• Savings and current accounts</li> <li>• Remittance and payment services (domestic &amp; international)</li> <li>• Issuing debit cards and ATM cards</li> </ul> </li> <li>3. <b>Restrictions:</b> <ul style="list-style-type: none"> <li>• Cannot issue loans or credit cards</li> <li>• Cannot accept NRI deposits</li> </ul> </li> </ol>	[16]	CO 5	BL5/ 6



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<p><b><u>Example:</u></b> Airtel Payments Bank, Paytm Payments Bank etc.</p> <p><b><u>Role of Payments Banks in Financial Inclusion :</u></b></p> <ul style="list-style-type: none"> <li>• <b>Digital Transactions:</b> Payment Banks leverage mobile apps, UPI, and Aadhaar-enabled systems to make banking accessible.</li> <li>• <b>Low-Cost Services:</b> They reduce dependency on cash and provide affordable transaction options.</li> <li>• <b>Reach:</b> With telecom and postal networks, they extend banking services to rural and remote areas.</li> </ul> <p><b><u>Small Finance Banks</u></b></p> <p>Small Finance Banks (SFBs) are specialized banks in India created to serve underserved and unbanked populations, especially in rural and semi-urban areas. Unlike Payment Banks, they can <b>accept deposits and also provide loans and credit facilities</b>, making them a crucial tool for financial inclusion.</p> <p><b><u>Key Features:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Deposits:</b> Can accept all types of deposits (savings, current, fixed deposits).</li> <li>• <b>Loans:</b> Allowed to provide loans and advances, especially to priority sectors.</li> <li>• <b>Target Audience:</b> Small businesses, micro and small industries, farmers, and unorganized sector workers.</li> <li>• <b>Regulation:</b> Operate under RBI guidelines and must maintain a certain percentage of lending to priority sectors.</li> <li>• <b>Ownership:</b> Established as Public Limited Companies under the Companies Act, 2013.</li> </ul> <p><b><u>Example:</u></b> AU Small Finance Bank, Fincare Small Finance Bank etc.</p> <p><b><u>Role of Small Finance Banks in Financial Inclusion :</u></b></p> <ul style="list-style-type: none"> <li>• <b>Credit Access:</b> Provide loans to small farmers, micro-enterprises, and low-income groups.</li> <li>• <b>Rural Outreach:</b> Focus on semi-urban and rural areas where traditional banks have limited presence.</li> <li>• <b>Support for MSMEs:</b> Help micro, small, and medium enterprises (MSMEs) grow by offering tailored credit facilities.</li> <li>• <b>Bridging Gaps:</b> Act as a bridge between microfinance institutions and large commercial banks</li> </ul> <p><b><u>Comparison table</u></b></p>			
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<u>Aspect</u>	<u>Small Finance Banks</u>	<u>Payment Banks</u>			
Deposits	No limit	Up to ₹2 lakh per customer			
Loans/Credit	Allowed	Not allowed			
Target Audience	Small businesses, farmers, low-income groups	Unbanked, migrant workers, low-income households			
Services	Full banking services (deposits + loans)	Savings accounts, remittances, debit cards only			
Regulation	RBI licensed, priority sector lending norms	RBI licensed, no lending allowed			
<b>OR</b>					
<p>b) <b>A. Financial Inclusion – Meaning &amp; Definition</b></p> <p><b>Meaning:</b> Financial inclusion means ensuring <b>easy, affordable, and timely access</b> to financial products and services—like bank accounts, credit, insurance, and digital payments—to <b>all sections of society</b>, especially the poor and marginalized.</p> <p><b>Definition:</b> According to the Reserve Bank of India (RBI), “<b>Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable and low-income groups at an affordable cost.</b>”</p> <p><b>B. Financial Literacy – Meaning &amp; Definition</b></p> <p><b>Meaning:</b> Financial literacy refers to the <b>knowledge and skills</b> that allow individuals to make <b>informed and effective decisions</b> regarding their money—saving, investing, borrowing, budgeting, etc.</p> <p><b>Definition:</b> OECD defines financial literacy as: “<b>A combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions</b>”</p>					



<p><b>and achieve financial well-being.”</b>  <u><b>Role of technology in promoting inclusion</b></u></p> <p><b>1. Mobile Banking</b></p> <ul style="list-style-type: none"> <li>• Provides banking services through smartphones, even in rural or remote areas.</li> <li>• Eliminates the need for physical branches, reducing costs and increasing accessibility.</li> </ul> <p><b>2. Digital Payment Systems</b></p> <ul style="list-style-type: none"> <li>• Platforms like UPI, Aadhaar-enabled Payment Systems, and mobile wallets make transactions fast and affordable.</li> <li>• Encourages cashless economies and reduces dependency on informal channels.</li> </ul> <p><b>3. Fintech Innovations</b></p> <ul style="list-style-type: none"> <li>• Apps for micro-loans, peer-to-peer lending, and digital insurance expand reach.</li> <li>• Tailored solutions for small businesses and low-income households.</li> </ul> <p><b>4. Blockchain Technology</b></p> <ul style="list-style-type: none"> <li>• A blockchain is a <b>distributed database or ledger</b> that stores information in blocks linked together in chronological order.</li> <li>• Ensures secure, transparent, and tamper-proof transactions.</li> <li>• Useful for cross-border remittances and reducing fraud.</li> </ul> <p><b>5. Artificial Intelligence</b></p> <ul style="list-style-type: none"> <li>• AI-driven credit scoring helps assess borrowers without traditional credit histories.</li> <li>• Enables personalized financial products for underserved groups.</li> </ul> <p><b>6. Biometric Authentication</b></p> <ul style="list-style-type: none"> <li>• Aadhaar and fingerprint/iris recognition provide secure identity verification.</li> <li>• Helps people without</li> </ul>			
<p><b>c) <u>Challenges in Indian Financial Markets</u></b></p> <p><b><u>A. Non-Performing Assets (NPAs)</u></b></p> <ul style="list-style-type: none"> <li>• <b>Definition:</b> Loans or advances where borrowers fail to make interest or principal payments for 90+ days.</li> <li>• <b>Impact:</b> <ul style="list-style-type: none"> <li>– Weakens banks’ balance sheets.</li> <li>– Reduces profitability and lending capacity.</li> <li>– Creates trust deficit among investors.</li> </ul> </li> <li>• <b>Causes:</b> Poor credit , economic slowdown, willful defaults, and over-leveraging by corporates.</li> </ul> <p><b><u>B. Corporate Governance Issues</u></b></p> <ul style="list-style-type: none"> <li>• <b>Weak oversight:</b> Boards sometimes fail to ensure</li> </ul>			



<p>transparency and accountability.</p> <ul style="list-style-type: none"> <li>• <b>Frauds &amp; mismanagement:</b> Cases like IL&amp;FS crisis highlight lapses in governance.</li> <li>• <b>Investor confidence:</b> Poor governance erodes trust in listed companies and markets.</li> <li>• <b>Need:</b> Stronger regulatory enforcement, independent directors, and ethical practices.</li> </ul> <p><b><u>C. Market Volatility</u></b></p> <ul style="list-style-type: none"> <li>• <b>Global linkages:</b> Indian markets are sensitive to global events (oil prices, US Dollar rates, geopolitical tensions).</li> <li>• <b>Domestic factors:</b> Policy changes, inflation, and fiscal deficits trigger fluctuations.</li> <li>• <b>Impact:</b> <ul style="list-style-type: none"> <li>– Short-term instability for investors.</li> <li>– Difficulty in predicting returns.</li> </ul> </li> </ul> <p><b><u>D. Shadow Banking</u></b></p> <ul style="list-style-type: none"> <li>• <b>Definition:</b> <i>Shadow banking</i> refers to financial activities like lending and credit creation carried out by institutions <b>outside the traditional banking system</b> and therefore not subject to the same regulations as banks. Financial activities carried out by non-bank financial companies (NBFCs) outside the traditional banking system.</li> <li>• <b>Risks:</b> <ul style="list-style-type: none"> <li>– Lack of strict regulation compared to banks.</li> <li>– Over-dependence on short-term borrowing.</li> <li>– Vulnerability to liquidity crises (e.g., IL&amp;FS default in 2018).</li> </ul> </li> <li>• <b>Impact:</b> Can destabilize credit markets if unchecked.</li> </ul> <p><b><u>E. Systemic Risks</u></b></p> <ul style="list-style-type: none"> <li>• <b>Interconnectedness:</b> Failures in one institution (like NBFCs) can spread across the financial system.</li> <li>• <b>Contagion effect:</b> Defaults or crises in one sector can trigger panic in others.</li> <li>• <b>Examples:</b> <ul style="list-style-type: none"> <li>– Global financial crisis (2008) showed how systemic risks can cripple economies.</li> <li>– In India, NBFC liquidity crunch affected banks, mutual funds, and investors.</li> </ul> </li> <li>• <b>Need:</b> Stronger risk management, stress testing, and regulatory vigilance (the continuous, watchful process of monitoring, detecting, assessing, and responding to issues, especially adverse events or non-compliance).</li> </ul> <p>Indian financial markets face <b>structural and operational challenges</b> ranging from NPAs and governance lapses to volatility and shadow banking risks. Addressing these requires:</p>			
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<ul style="list-style-type: none"> <li>Better regulation and supervision.</li> <li>Stronger corporate governance frameworks.</li> <li>Enhanced transparency and accountability.</li> </ul> <p>Adoption of technology for risk management.</p>				
<b>OR</b>				
<p><b>d) <u>A. Global Market Structure</u></b></p> <ul style="list-style-type: none"> <li><b>Definition:</b> International financial markets facilitate the flow of capital across countries through instruments like equities, bonds, currencies, and derivatives.</li> <li><b>Components:</b> <ul style="list-style-type: none"> <li>– <b>Foreign Exchange Market (Forex):</b> Largest global market, trading currencies.</li> <li>– <b>Capital Markets:</b> International equity and debt markets.</li> <li>– <b>Money Markets:</b> Short-term borrowing and lending across borders.</li> <li>– <b>Derivatives Markets:</b> Futures, options, swaps used for hedging and speculation.</li> </ul> </li> <li><b>Integration:</b> Globalization has interconnected markets, meaning shocks in one region often ripple worldwide.</li> </ul> <p><b><u>B. Key Global Institutions</u></b></p> <p><b>International Monetary Fund (IMF):</b></p> <ul style="list-style-type: none"> <li>Provides financial assistance to countries facing balance of payments crises.</li> <li>Offers policy advice and technical assistance.</li> <li>Plays a stabilizing role during global financial turmoil.</li> </ul> <p><b>World Bank:</b></p> <ul style="list-style-type: none"> <li>Focuses on long-term development projects (infrastructure, poverty reduction, education).</li> <li>Provides loans and grants to developing countries.</li> <li>Promotes sustainable economic growth.</li> </ul> <p><b>Bank for International Settlements (BIS):</b></p> <ul style="list-style-type: none"> <li>Acts as a “bank for central banks.”</li> <li>Facilitates cooperation among monetary authorities.</li> <li>Sets global banking standards (e.g., Basel norms for capital adequacy).</li> </ul> <p><b><u>C. FPI and FDI</u></b></p> <p>FDI (Foreign Direct Investment) is a long-term investment where an investor gains controlling ownership in a foreign business (like building factories), fostering economic growth and job creation, while FPI (Foreign Portfolio Investment) involves short-term, passive buying of foreign financial assets (stocks, bonds) for quick returns. FDI builds assets and infrastructure; FPI fuels markets but can cause capital flight (Capital flight is the rapid, large-scale movement of money or assets out of a country, typically due to a loss of investor confidence from political instability, economic crises (like high</p>				



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inflation or debt), high taxes, or fears of currency devaluation, leading to financial instability and reduced domestic investment.), making FDI generally preferred for stability.

- **Foreign Portfolio Investment (FPI):**
  - Investment in financial assets like stocks and bonds.
  - Short-term, more volatile, sensitive to global events.
  - Provides liquidity but can cause sudden capital flight.
- **Foreign Direct Investment (FDI):**
  - Long-term investment in physical assets (factories, infrastructure, joint ventures).
  - Brings technology, employment, and stable capital inflows.
  - Less volatile compared to FPI.

### **D. Impact of Global Events on India**

- **Global Financial Crisis (2008):**
  - Led to capital outflows, rupee depreciation, and stock market volatility.
- **COVID-19 Pandemic (2020):**
  - Disrupted supply chains, reduced FDI inflows, and caused market uncertainty.
- **US Federal Reserve Rate Hikes:**
  - Trigger capital outflows from India as investors seek safer returns.
- **Geopolitical Tensions (e.g., Russia-Ukraine war, Middle East conflicts):**
  - Affect oil prices, inflation, and India's trade balance.
- **Globalization:**
  - While it opens opportunities for Indian firms, it also exposes them to external shocks.

### **Summary :**

International financial markets are interconnected systems where institutions like the IMF and World Bank stabilizing roles. For India, **FDI brings stability and growth**, while **FPI adds liquidity but volatility**. Global events—from crises to geopolitical tensions—directly influence India's currency, stock markets, and economic outlook.



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