

Chapter 10 · Financial Markets

CBSE Class 12 Business Studies (054) · Part B · Unit 9+10 = 15 marks · Ultimate Revision Sheet

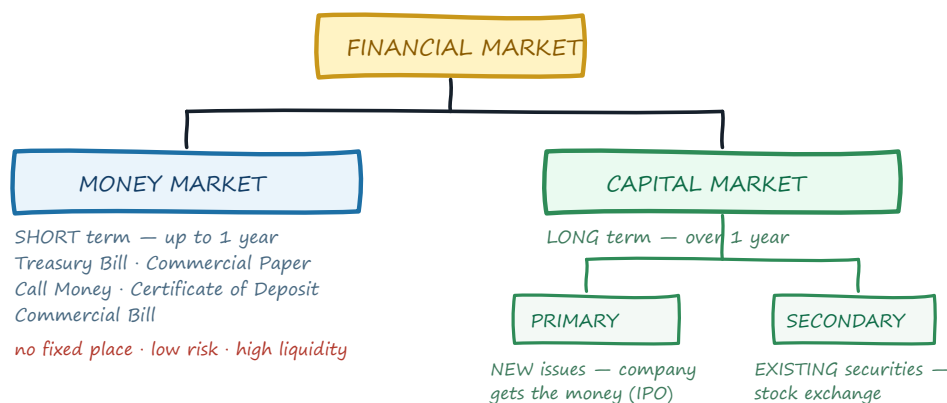
READ THIS FIRST — SYLLABUS ALERT

Per the official CBSE 2026-27 syllabus, this unit is now cut down. Prescribed: **concept** of financial market, **concept** of money market, capital market and its types, stock exchange functions and trading procedure, and SEBI. **NOT prescribed any more:** functions and types of financial markets, **instruments of the money market** (T-bills, commercial paper, call money, CDs, commercial bills) and **methods of floatation in the primary market**. Confirm with your teacher before skipping — but do not spend revision time on those three unless told otherwise.

60-SECOND RECALL

Financial market	A market for the creation and exchange of financial assets ; it channels savings from savers to investors — the allocative function .
Money market	Market for short-term funds — maturity up to one year .
Capital market	Market for medium and long-term funds — Primary (new issues) + Secondary (existing securities).
Stock exchange	Organised market for the purchase and sale of existing securities. 6 functions .
SEBI	Established 1988 , statutory status 1992 . Three function types: Regulatory, Development, Protective .
Settlement	T+1 rolling settlement · Demat account · Depositories: NSDL & CDSL

1. Financial Market — Concept



The test is always **TIME**: one year or less is money market, longer is capital market.

Two questions settle every case: how long is the money for, and is the security new or already issued?

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A financial market is a market for the creation and exchange of financial assets. It links savers (households) with investors (business firms) and performs the **allocative function** — allocating scarce funds to the most productive uses. This results in a **higher rate of return to savers**, **efficient allocation of funds**, and **economic growth**.

2. Money Market — Concept

CONCEPT ONLY The **money market** is a market for **short-term** funds which deals in monetary assets whose period of maturity is **up to one year**. It is a market for low-risk, highly liquid, short-term instruments. Major participants: **RBI**, commercial banks, non-banking finance companies, mutual funds, large corporates.

3. Capital Market — Concept and Types

DEFINITION The **capital market** is the market for **medium and long-term** funds. It has two segments: the **primary market** (where **new** securities are issued) and the **secondary market** (where **existing** securities are traded).

Capital Market vs Money Market

Basis	CAPITAL market	MONEY market
Participants	Financial institutions, banks, corporates, retail investors	RBI, banks, financial institutions, large corporates — retail investors mostly excluded
Instruments	Equity shares, debentures, bonds, preference shares	Short-term monetary assets
Investment outlay	Does not necessarily require a large outlay — securities have small denominations	Requires a huge outlay — instruments are large-denomination
Duration	Medium and long term — may even be perpetual	Short term — maximum one year
Liquidity	Liquid, but less than money market	Highly liquid
Safety / Risk	More risky — both in terms of return and principal	Much safer — short maturity and financially sound issuers
Expected return	Higher	Lower

Primary Market vs Secondary Market

Basis	PRIMARY market	SECONDARY market
Securities traded	New securities, issued for the first time	Existing securities, already issued
Also called	New Issue Market	Stock exchange / after-market
Buying and selling	Between the company and the investor — directly	Between investors , through brokers
Flow of funds	Funds flow to the company — capital formation occurs	Funds flow between investors — no fresh capital to the company
Price	Determined by the management of the company	Determined by demand and supply
Location	No fixed geographical location	Located at specified places

4. Stock Exchange

DEFINITION A **stock exchange** is an institution which provides a platform for buying and selling of **existing securities**. It is an organised market where securities issued by companies and government bodies are traded.

Functions of a Stock Exchange (6)

1. **Providing liquidity and marketability to existing securities** — it is a ready and continuous market where securities can be converted into cash.
2. **Pricing of securities** — share prices are determined by the **forces of demand and supply**; the exchange helps value securities continuously.
3. **Safety of transaction** — membership is well regulated and dealings are governed by rules, which ensures fairness.
4. **Contributes to economic growth** — through **disinvestment and reinvestment**, savings get channelled into the most productive investment proposals, leading to capital formation.
5. **Spreading of equity cult** — educates the public about investing in securities of good companies, so ownership is spread widely.
6. **Providing scope for speculation** — a restricted and controlled amount of speculation is permitted, which is necessary to ensure **liquidity and price continuity**.

Trading Procedure in a Stock Exchange

#	Step	What happens
1	Selection of a broker	Trading can only be done through a SEBI-registered broker , who is a member of the stock exchange.
2	Opening a Demat account	A Demat (dematerialised) account is opened with a Depository Participant (DP) to hold shares in electronic form.
3	Placing the order	The investor places the order with the broker, specifying the number of shares and the price range .
4	Executing the order	The broker buys/sells at the best price available on the exchange's online trading system.
5	Issue of contract note	The broker issues a contract note giving details of the trade, signed by the broker.
6	Delivery of shares / payment	The investor delivers the shares sold or pays for the shares bought, along with brokerage.
7	Settlement	Under rolling settlement (T+1) , a trade on day T is settled on the next working day . Shares are credited to or debited from the demat account.

DEPOSITORY & DEMAT — know these three terms **Depository** — an institution that holds securities in electronic form. India has two: **NSDL** (National Securities Depository Ltd) and **CDSL** (Central Depository Services Ltd).

Depository Participant (DP) — the agent (bank/broker) through which an investor interacts with the depository.

Demat account — the account in which securities are held in electronic form, removing the risks of theft, forgery and bad delivery of physical certificates.

5. SEBI — Securities and Exchange Board of India

ESTABLISHMENT SEBI was established by the Government of India on **12 April 1988** and given **statutory status in 1992**. Its head office is in **Mumbai**. It was set up in response to malpractices such as price rigging, unofficial premiums on new issues, delays in delivery, and violation of rules of the stock exchange.

Objectives of SEBI (4)

1. To **regulate** stock exchanges and the securities market to promote their orderly functioning.
2. To **protect the rights and interests of investors**, particularly individual investors, and to guide and educate them.
3. To **prevent trading malpractices** such as insider trading and price rigging, and achieve a balance between self-regulation and statutory regulation.
4. To **regulate and develop a code of conduct** for intermediaries such as brokers, underwriters and merchant bankers.

Functions of SEBI — the three baskets

Type	Functions
REGULATORY	Registration of brokers, sub-brokers and other players · Registration of collective investment schemes and mutual funds · Regulation of stock brokers, underwriters, merchant bankers · Regulation of takeover bids by companies · Levying fees · Performing and exercising powers · Conducting inquiries and audits of stock exchanges
DEVELOPMENT	Training of intermediaries · Conducting research and publishing useful information · Undertaking measures to develop the capital market by adopting a flexible approach · Promoting IPOs through the internet by brokers
PROTECTIVE	Prohibiting fraudulent and unfair trade practices such as price rigging · Controlling insider trading and imposing penalties · Undertaking steps for investor protection · Promoting a fair code of conduct in the securities market · Investor education

TRAP Insider trading and price rigging are **PROTECTIVE** functions, not regulatory. Registration of brokers and mutual funds is **REGULATORY**. Training and research are **DEVELOPMENT**. Examiners frequently give an activity and ask which basket it falls in.

6. Case-Study Keyword Triggers 40% of the paper is competency-based

If the case says...	The answer is...
"company issued shares for the first time to the public"	Primary market
"investor A sold shares to investor B through a broker"	Secondary market / stock exchange
"funds needed for six months"	Money market
"funds needed for a ten-year project"	Capital market
"shares could be sold quickly and converted to cash"	Liquidity & marketability (stock exchange function)
"price was set by demand and supply"	Pricing of securities (function)
"savings channelled into productive projects"	Contributes to economic growth / allocative function
"a director bought shares knowing unpublished results"	Insider trading → SEBI protective function
"artificially raised the share price"	Price rigging → SEBI protective function
"SEBI registered a new mutual fund"	SEBI regulatory function
"SEBI conducted a training programme for brokers"	SEBI development function
"shares held in electronic form"	Demat account / depository
"trade settled the next working day"	T+1 rolling settlement

MOST-ASKED BOARD QUESTIONS

1. [6M] Explain the functions of a stock exchange.
2. [6M] Explain the protective / regulatory / development functions of SEBI.
3. [4-6M] Distinguish between capital market and money market / primary and secondary market.
4. [4M] Explain the trading procedure in a stock exchange.
5. [3M] State the objectives of SEBI.
6. [1M] Name the two depositories in India. → **NSDL and CDSL**

REMEMBER THE CUT — Do not memorise money-market instruments or methods of floatation unless your teacher says your school is still testing them; the official 2026-27 syllabus does not list them. Spend that time on **SEBI functions** and the **two difference tables** instead — those are where the marks actually are.