

Indian Institute of Technology Kharagpur

Date: _____ FN/AN Time: 2 hours Full Marks: 30 No of Students: 135
 Mid Autumn Semester 2016-17 Deptt: HSS Sub No: HS30097
 5-Year Integrated M.Sc in Economics Sub Name: Financial Institutions and Markets

Answer all the Questions and Each Question Carries Equal Marks.

1. Financial Developments lead to Economic Growth through savings and investments.

Do you agree with this statement? If yes, then provide the arguments through different theories.

Prior savings theory, Credit creation theory, theory of forced savings, Theory of financial regulation, theory of financial liberalization

2. What do you mean by efficiency of the markets? Explain the Efficient Market Hypothesis with suitable example.

Information arbitrage, fundamental valuation, full insurance, operational efficiency, allocational efficiency, weak form, semi strong form, strong form

3. What are the major objectives of RBI? Explain the operating procedure of monetary policy after the introduction of Liquidity Adjustment Facility in India.

Monetary stability, stable Payment System, development of financial infrastructure, Price stability, efficient credit allocation

4. What are the major objectives and functions of SEBI and IRDA?

SEBI: (1) To regulate SE (2) To protect the interests of investors (3) To prevent fraud (4) To develop, regulate the Code of Conduct

5. Why bank is special among all financial institutions? Explain the different approaches to bank lending.

(1) Access to all net deposit insurance (2) Economies of scale (3) Economies of scope (4) Monitor but is low (5) Reduction of asymmetric and agency costs

6. What are the different types of risks commercial banks face? Briefly explain how commercial banks manage the interest rate risk?

credit risk, Market Risk, Liquidity risk and operational risk

- Maturity gap analysis → f gap assets are priced before liabilities
 - Stock index approach → $-$ gap liabilities are priced before assets
 - Simulation
 - Value at Risk
 Peak - $i \uparrow \rightarrow$ Forward floaty position (- gap)

SEBI : objectives

- (1) To regulate SE
- (2) Protect the rights of the investors
- (3) Prevent fraud
- (4) To regulate and develop Code of Conduct

- Functions
- (1) Checks price rigging
 - (2) Prohibits insider trading
 - (3) " " confers trade practices

- (1) Training (2) Mutual trading (3) EPI other (Developmental)

- (1) Rules for merchant bankers, brokers, underwriters
- (2) Regulation Mutual fund, insurance, auditing etc

Recession → f gap
 Recovery → f gap
 Expansion → f gap
 Recession → $(-)$ gap

IRDA objectives

- (1) To promote the interest and right of the policy holders
- (2) " " and ensure growth of insurance industry
- (3) Speedy settlement of claims, prevent fraud and malpractices
- (4) To bring transparency

- Functions
- (1) Issues the registration certificate to Insurance Companies
 - (2) Protect the interest of policy holders
 - (3) Regulate the premium rates
 - (4) Regulate the solvency margin
 - (5) Rules/regulation to govern
 - (6) Ensure the solvency margin