

 XLRI Jamshedpur <i>School of Business & Human Resources</i>		PGCBM 15	
End Term Examination			
Financial Markets & Banking			
Weightage	50%	Duration	90 minutes

Name _____

Roll No. _____

INSTRUCTIONS

- 1. Answer all questions.**
- 2. Open text book exam.**

You are not allowed to borrow book, paper, calculators, etc. Marks in brackets for a section indicate the marks assigned for each question in that section. In case of multiple-choice questions, you are required to tick the appropriate choice (nearest choice) in the question paper.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

Your serial number is the last digit appearing in your SMS Id. For example, if your SMS Id is 2215597 then you will have to attempt all question numbers appearing across Serial number 7. Each question carries minimum of + 7 marks. Negative marks might be awarded for writing irrelevant answers / global answers.

Please answer the questions across your serial number:

Serial	Chapter 19	Chapter 20	Chapter 22	Chapter 23	Chapter 24	Chapter 25	Bank Related
0	Q1 in p678	Q2 in p709	Q3 in p778	CQ4 in p809	Q5 in p831	Q6 in p871	Question A in the next page
1	Q2 in p678	Q3 in p709	Q4 in p778	CQ5 in p809	Q6 in p832	Q7 in p871	Question A in the next page
2	Q3 in p678	Q4 in p709	Q5 in p778	CQ6 in p809	Q7 in p832	Q8 in p871	Question A in the next page
3	Q4 in p678	Q5 in p709	Q6 in p778	CQ7 in p809	Q8 in p832	Q9 in p872	Question B in the next page
4	Q5 in p678	Q6 in p709	Q7 in p778	CQ8 in p809	Q9 in p832	Q10 in p872	Question B in the next page
5	Q6 in p678	Q7 in p710	Q8 in p778	CQ9 in p809	Q10 in p832	Q1 in p871	Question B in the next page
6	Q7 in p678	Q8 in p710	Q9 in p778	CQ10 in p809	Q1 in p831	Q2 in p871	Question B in the next page
7	Q8 in p679	Q9 in p710	Q10 in p779	CQ1 in p809	Q2 in p831	Q3 in p871	Question C in the next page
8	Q9 in p679	Q10 in p710	Q1 in p777	CQ2 in p809	Q3 in p831	Q4 in p871	Question C in the next page
9	Q10 in p679	Q1 in p709	Q2 in p777	CQ3 in p809	Q4 in p831	Q5 in p871	Question C in the next page

Except the banking related question, all the above questions are from the prescribed text book for the course titled “Corporate Finance” by Ross, Westerfield, Jaffe, and Kakani.

Banking Related Question:

Q1. For each of the following statements (i-v) below, identify which of the six C’s of credit (one or more) are involved and provide appropriate justifications for each (maximum of 100 words per answer)

- i) Bank A discovers that there is already an existing lien in favor of another bank on the fixed assets owned by a loan applicant.
 - ii) XYZ Steel has the highest credit rating assigned by all credit rating agencies. XYZ Steel is planning a share buyback. The company approaches Bank A for an unsecured lending facility.
 - iii) Bank A is concerned about making a 5-year loan to DBF Motors as it is expecting recessionary conditions in the economy a year from now.
 - iv) EMH Trading Company approaches Bank A for a loan. While making the required background checks, the bank finds that there have been a number of changes in its management, primary suppliers, and primary customers over the past 5 years.
 - v) A customer approaches Bank A for a residential loan in a location with high current real estate values. The bank believes that the recent boom in residential property prices has almost run its course and that residential property prices can only go one way- down.
- A) For each of the following statements (i-iii) below, identify whether the covenant imposed by Bank A upon its borrowers is a negative action covenant or a positive action covenant (maximum of 100 words per answer)
- i) The borrower is to fully insure their fixed assets and inventories against losses due to theft, fire, or other accidents.
 - ii) The borrower may borrow additional money from other providers in the future to meet its increased financial requirements. However, it will have to make prior notifications to Bank A to do so.
 - iii) The borrower must take prior approval of the bank before making substantial new investments in fixed assets, sale of substantial portion of its fixed assets, or before the acquisition of a new business.

Q2. Answer each of the following (maximum of 400 words each)

- i) Elaborate upon the differences between direct finance and intermediated finance.
- ii) Elaborate upon the differences between the nature of business of banks and other manufacturing and service sector firms.

Q3. Answer each of the following

- i) Elaborate upon the differences between Non-Performing Assets, Sub-Standard Assets, Doubtful Assets, & Loss Assets. If an individual loan facility provided to a borrower fulfils the conditions to be classified as an NPA, should only such individual facility be classified as an NPA? (maximum of 400 words)
- ii) What are the differences between Overdrafts & Cash Credit facilities? (maximum of 300 words)
- iii) Which assets are considered eligible for meeting CRR and SLR requirements? What is the underlying rationale for banks to hold assets eligible for CRR and SLR? Would government securities classified under the “Held for Trade” category be eligible for meeting SLR requirements? (maximum of 300 words)