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X IFM Chapter 3 Primary Market

1. What is the primary function of the primary market?

a) Trading of securities

b) Issuance of new securities

c) Regulation of stock exchanges

d) Providing short-term loans

2. Which of the following is NOT a method of issuing securities in the primary market?

a) Initial Public Offering (IPO)

b) Follow-on Public Offer (FPO)

c) Stock Repurchase

d) Rights Issue

3. In an IPO, shares are issued to investors for the first time by which entity?

a) Stock exchange

b) Government

c) Private investors

d) The company itself

4. Which regulatory body oversees the functioning of the primary market in India?

a) RBI

b) SEBI

c) IRDAI

d) Ministry of Finance

5. What is a Rights Issue?

a) Issuing shares only to government institutions

b) Offering existing shareholders the right to buy additional shares

c) Issuing bonds to raise debt capital

d) Selling shares directly to the stock market

6. A company raising funds through private placement issues shares to:

a) General public

b) A select group of investors

c) Only retail investors

d) Foreign governments

7. What is the main difference between the primary and secondary markets?

a) Only companies participate in the primary market

b) Securities are first issued in the primary market and then traded in the secondary market

c) The primary market deals with old securities, while the secondary market issues new securities

d) The primary market is for bonds, and the secondary market is for stocks

8. Underwriting in the primary market refers to:

a) Buying stocks from retail investors

b) An agreement where underwriters guarantee to sell the shares

c) Trading in derivatives

d) Regulating the bond market

9. Which document provides detailed information about an IPO to investors?

a) Balance Sheet

b) Prospectus

c) Annual Report

d) Stock Certificate

10. Book Building is a method of:

a) Determining a fixed price for shares

b) Finding a price based on investor demand

c) Listing shares on a stock exchange

d) Issuing bonus shares

11. Who can invest in an Initial Public Offering (IPO)?

a) Only institutional investors

b) Only retail investors

c) Only foreign investors

d) All eligible investors (retail, institutional, and foreign)

12. Which of the following is a benefit of the primary market for companies?

a) Provides a platform for trading securities

b) Helps raise capital for business expansion

c) Ensures liquidity of shares

d) Regulates stock market activities

13. Which of the following is NOT a participant in the primary market?

a) Underwriters

b) Stockbrokers

c) Issuing company

d) Investors

14. A Follow-on Public Offer (FPO) is issued by:

a) A new company entering the stock market

b) A company that has already gone public and is issuing additional shares

c) The government for privatization

d) Institutional investors for hedging

15. Private placement of securities is primarily done to:

a) Raise funds quickly from a limited number of investors

b) Increase the company's debt

c) Issue shares to the public at a fixed price

d) Encourage stock market speculation

16. Which of the following is a key difference between an IPO and an FPO?

a) IPO is the first-time issuance, while FPO is an additional issuance

b) IPO is issued at a discount, while FPO is issued at a premium

c) IPOs are regulated by SEBI, while FPOs are not

d) IPOs are only for private companies, while FPOs are for public companies

17. A company raising capital through a rights issue offers shares to:

a) The general public

b) Only institutional investors

c) Only existing shareholders

d) Government organizations

18. Which of the following best describes the term “underwriting” in an IPO?

a) A process where a bank guarantees to buy unsold shares

b) A way of issuing shares directly to investors

c) A regulation to control stock market manipulation

d) A form of government taxation on new securities

19. What is the primary goal of the primary market?

a) Facilitate the trading of existing securities

b) Raise new capital for companies and governments

c) Monitor stock price movements

d) Control inflation in the economy

20. The fixed price method in an IPO means that:

a) The price is determined after the IPO closes

b) Investors bid for shares at different prices

c) The issuing company sets a predetermined price for shares

d) The stock exchange determines the price