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CLASS X · INTRODUCTION TO FINANCIAL MARKETS (405) · SKILL SUBJECT · CBSE BOARD EXAMINATION 2027

PART B · UNIT 4

Secondary Market

Unit Booklet · Short Notes · Board-Pattern Questions · Model Answers

Part B · 7 of 40 theory marks | 29 questions with model answers | Manish Mathur Sir | Taught: Wed 25 Nov

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STUDENT DETAILS

NAME _____

CLASS & SECTION _____

ROLL NO. _____

UNIT FINISHED ON _____

OBJECTIVE SELF-CHECK _____ / 16

1

READ THIS FIRST · SHORT NOTES

Unit Notes

How existing securities are traded: primary vs secondary market, products traded, demutualised exchanges, screen-based trading, the steps of a trade and settlement, brokerage sums, equity vs debt investment, bond terms, credit rating, and what moves share prices.

THIS UNIT IN THE BOARD PAPER

7 / 40

Unit 4 carries **7 marks**. In the CBSE sample paper it gave **4 one-mark items** (broker, clearing corporation, equity shares, buyer's price), a **2-mark** question on factors affecting share prices and a **4-mark** question on bond terms (maturity, coupon, principal).

SYLLABUS 2026–27 · WHAT CBSE LISTS FOR THIS UNIT

- Primary vs secondary market; products in the secondary market
- Demutualised stock exchanges; screen-based trading system (SBTS)
- Equity investment and debt investment; calculating brokerage
- Credit rating agencies
- Pre-trading and post-trading steps; mock portfolio

HOW THE CBSE SKILL-SUBJECT PAPER IS SET (THEORY 50 MARKS · 2 HOURS)

1 mark
Objective: MCQ, assertion–reason, fill in the blank, true/false, match. Q1 is Part A; Q2–Q5 (answer 5 of 6 in each) are Part B.

2 marks
Short answer in **20–30 words**: two clear points. Part B: answer any 4 of 6 (Q11–Q16).

4 marks
Long answer in **50–80 words**: four points, or 2 + 2. Answer any 3 of 5 (Q17–Q21); often case-based.

Part B = 40
Objective 20 + short 8 + long 12. Part A (Employability Skills) = 10. Practical = 50.

Write in points, start each point with the key word, and stay inside the word limit. Objective answers: write the option letter **and** the answer.

1 Secondary market

Secondary market: the market where **already-issued, listed** securities are bought and sold between investors, through stock exchanges. The company gets **no** money from these trades.

Basis	Primary market	Secondary market
Securities	New issue	Existing, listed
Money goes to	The company	The selling investor
Price	Fixed by company / book building	Set by demand and supply every moment
Place	No fixed place	Stock exchanges
Role	Raises capital	Gives liquidity and price discovery

Products traded: equity shares, preference shares, bonds and debentures, government securities, derivatives (futures and options), exchange-traded funds (ETFs).

2 Demutualised stock exchange

- Earlier, exchanges were **mutual**: the brokers who traded were also the owners and managers – a conflict of interest.
- **Demutualisation** separates the three: **ownership** (shareholders), **management** (professional board) and **trading rights** (brokers).
- **NSE** was set up as a demutualised exchange from the start; **BSE** was demutualised in **2005**.
- Benefits: fair rules for all investors, transparency, better governance.

3 Screen-based trading system (SBTS)

SBTS: trading through **computer terminals** linked to the exchange's central system, replacing the old open-outcry 'ring' where brokers shouted bids on the floor. NSE started it in 1994 (NEAT); BSE's system is BOLT.

- **Order-driven:** buy and sell orders are matched automatically by the computer.
- **Price–time priority:** the best price is matched first; at the same price, the earlier order goes first.
- **Anonymous** and **transparent**: all see the best prices, not who placed them.
- Investors anywhere in India can trade; faster, cheaper, with a full record (audit trail).

Bid price = the price a **buyer** offers. **Ask (offer) price** = the price a **seller** wants. **Market order**: at the best price now. **Limit order**: only at a set price or better.

4 Steps of a trade

1. **Open accounts**: trading account with a SEBI-registered broker (trading member) + demat account + bank account; complete KYC (PAN, Aadhaar).
2. **Place an order** online, by app or phone.
3. **Order matching** on the exchange's system; the broker sends a **contract note** the same day.
4. **Clearing**: the **clearing corporation** (e.g. NSE Clearing Ltd) works out who owes what and guarantees the trade.
5. **Settlement** on **T + 1** (one working day after trade day): shares reach the buyer's demat account; money reaches the seller.

5 Brokerage and charges

Brokerage: the broker's fee, a percentage of the trade value or a flat fee. Other charges: Securities Transaction Tax (STT), GST, stamp duty, exchange and SEBI fees.

WORKED EXAMPLE

Buy 200 shares at ₹150, brokerage 0.4%: value ₹30,000; brokerage ₹120; cost **₹30,120**.
Sell all at ₹180: value ₹36,000; brokerage ₹144; you receive **₹35,856**.
Profit = 35,856 − 30,120 = **₹5,736**.

6 Equity and debt investment

Basis	Equity	Debt
Investor is	Owner	Lender (creditor)
Return	Dividend + capital gain; not fixed	Fixed interest (coupon)
Risk	Higher	Lower
Repayment	No repayment; sell in market	Principal repaid on maturity; paid before shareholders if company closes
Voting	Yes	No

7 Bond terms

- **Bond / debenture:** "bond" is used mainly for central and state government and public-sector debt; "debenture" for private company debt.
- **Principal (face or par value):** the amount borrowed, repaid at the end, e.g. ₹1,000.
- **Coupon:** the interest paid regularly. **Coupon rate** = coupon as a % of face value. Coupon = principal × coupon rate.
- **Maturity date:** when the principal is repaid. **Term to maturity:** years left until then.

COUPON

A ₹1,000 bond with an 8% coupon pays ₹1,000 × 8% = **₹80 a year** (₹40 every six months if paid half-yearly).

8 Credit rating agencies

Credit rating: an opinion on how safely a borrower will pay interest and principal on time. It is given by SEBI-registered agencies.

- **Agencies in India:** CRISIL (the first, 1987), ICRA, CARE Ratings, India Ratings.
- **Symbols (long-term): AAA** highest safety → AA → A → BBB (lowest investment grade) → BB, B, C → **D** default.
- Higher rating → lower risk → the company can borrow at a lower interest rate.

9 What moves share prices?

Stock-specific factors	Market-wide factors
Profits and future earnings of the company	General mood (sentiment) of investors
Financial health, debt	Economic growth, inflation, interest rates
Quality of management	Government policy, budget, taxes
New products, technology, orders	Global events, foreign investors, political stability

Key terms

16 terms

- **Secondary market:** market for trading existing securities
- **Trading member:** SEBI-registered broker of an exchange
- **Demutualisation:** separating ownership, management and trading rights
- **SBTS:** screen-based trading system
- **Bid price:** buyer's price
- **Ask price:** seller's price
- **Contract note:** broker's record of a trade
- **Clearing corporation:** settles and guarantees trades
- **T + 1:** settlement one working day after the trade
- **Brokerage:** broker's fee
- **Coupon:** interest on a bond
- **Face value:** principal of a bond
- **Maturity:** date the principal is repaid
- **Credit rating:** opinion on ability to repay
- **AAA:** highest safety rating
- **Market order:** order at the best price now

Common mistakes and exam tips

AVOID THESE

- In the secondary market the **company gets no money**.
- Bid = buyer; ask = seller. Remember: you **bid** at an auction when you want to buy.
- Settlement in India is **T + 1** – older books say T + 2.
- Coupon is on **face value**, not on the market price of the bond.
- In a brokerage sum, brokerage is **added** to the buying cost and **subtracted** from the selling amount.

A

PART A · 1 MARK EACH

Objective Questions

16 questions: MCQs, assertion–reason, fill in the blanks and true/false, like Q2–Q5 of the board paper. Answers in Part E.

ASSERTION–REASON: HOW TO ANSWER

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

A1. In the secondary market, the money paid by the buyer goes to: [1]

(a) the company
(b) the selling investor
(c) SEBI
(d) the depository

A2. The price at which a buyer is willing to buy a share is the: [1]

(a) Ask price **(b)** Bid price **(c)** Face value **(d)** Cut-off price

A3. A SEBI-registered member of a stock exchange who trades for clients is a: [1]

(a) Registrar
(b) Trading member (broker)
(c) Custodian
(d) Underwriter

A4. Which body settles trades and guarantees them on an exchange? [1]

(a) Credit rating agency
(b) Clearing corporation
(c) Merchant banker
(d) Mutual fund

A5. Separating the ownership and management of an exchange from the brokers' trading rights is called: [1]

(a) Dematerialisation
(b) Demutualisation
(c) Diversification
(d) Listing

A6. Trades on Indian stock exchanges are now settled on: [1]

(a) T + 5 **(b)** T + 3 **(c)** T + 1 **(d)** T + 10

A7. A bond of face value ₹500 has a coupon rate of 9%. The yearly coupon is: [1]

(a) ₹9 **(b)** ₹45 **(c)** ₹90 **(d)** ₹50

A8. Which credit rating shows the highest safety? [1]

(a) BBB **(b)** D **(c)** AAA **(d)** B

A9. An order to buy "at whatever the best price is right now" is a: [1]

(a) Limit order
(b) Market order
(c) Stop-loss order
(d) Rights order

A10. Which is a market-wide factor affecting share prices? [1]

(a) A company's new product
(b) Change in RBI interest rates
(c) Resignation of a company's CEO
(d) A company's quarterly profit

A11. ASSERTION–REASON [1]

Assertion (A): Screen-based trading is more transparent than the old ring system.

Reason (R): All investors can see the best buy and sell prices on screen.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

A12. ASSERTION–REASON [1]

Assertion (A): Debenture holders are owners of the company.

Reason (R): Debenture holders receive a fixed rate of interest.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

A13. FILL IN THE BLANK [1]

The record of a trade sent by the broker to the client is called a _____.

A14. FILL IN THE BLANK [1]

The date on which a bond's principal is repaid is its _____ date.

A15. TRUE OR FALSE [1]

CRISIL and ICRA are stock exchanges.

A16. TRUE OR FALSE [1]

BSE was demutualised in 2005.

B Short Answer Questions

PART B · 2 MARKS EACH

Answer in 20–30 words: two clear points. Model answers in Part E.

B1. Give two differences between the primary market and the secondary market. MUST DO [2]

B2. Explain the two kinds of factors that affect share prices. MUST DO [2]

B3. What is a demutualised stock exchange? [2]

B4. State any two features of the screen-based trading system. [2]

B5. What is a credit rating? Name two credit rating agencies in India. [2]

B6. Meena buys 100 shares at ₹250. Brokerage is 0.5%. Find the brokerage and her total cost. [2]

C Long Answer Questions

PART C · 4 MARKS EACH

Answer in 50–80 words: four points, or two points with an example each. Model answers in Part E.

C1. Explain the terms: (a) bond and debenture (b) principal (c) coupon (d) maturity. MUST DO [4]

C2. Describe the steps an investor follows to buy shares in the secondary market. MUST DO [4]

C3. Compare equity investment and debt investment on four points. [4]

C4. Ajay buys 200 shares at ₹150 and sells them at ₹180. Brokerage is 0.4% on both trades. Find his net profit. [4]

C5. What is the role of credit rating agencies? Explain the rating symbols. [4]

PART D · CASE AND COMPETENCY BASED

D Case-Based Questions

Read the situation, then answer from it and from the unit. These are the 4-mark board questions that test application.

D1. Case-Based · Riya's first trade [4]

Riya opens a trading and demat account with a broker after giving her PAN and Aadhaar. On Monday she places an order to buy 50 shares of a listed company at ₹400 or less. The order is matched at ₹398. She asks when the shares will reach her account.

(i) What type of order did Riya place? [1]

(ii) When will the shares reach her demat account? [1]

(iii) Which institution guarantees the trade, and what document does the broker send her? [2]

D2. Competency-Based · Choosing a bond [4]

Mr Verma, a retired teacher, wants a steady income. Bond X: face value ₹1,000, coupon 7.5%, rated AAA. Bond Y: face value ₹1,000, coupon 11%, rated BB.

(i) Find the yearly coupon of each bond. [1]

(ii) Why does Bond Y pay more? [1]

(iii) Which bond suits Mr Verma? Give two reasons. [2]

E

PART E · ANSWERS IN CBSE MARKING-SCHEME STYLE

Answers

Objective key with a reason, then model answers: numbered value points, key word first, the mark for each point in orange, and the word count under each answer. Any other correct, relevant point also earns the mark.

Objective questions – answer key

Part A

Write the option letter **and** the answer, as the marking scheme does.

Q	Answer	Why (one line)
A1	**(b) the selling investor**	The company gets money only in the primary market.
A2	**(b) Bid price**	Buyer's price = bid.
A3	**(b) Trading member (broker)**	Also called stock broker.
A4	**(b) Clearing corporation**	E.g. NSE Clearing Ltd.
A5	**(b) Demutualisation**	Removes conflict of interest.
A6	**(c) T + 1**	Since 2023.
A7	**(b) ₹45**	500 × 9% = 45.
A8	**(c) AAA**	D means default.
A9	**(b) Market order**	Executed at once at the best price.
A10	**(b) Change in RBI interest rates**	It affects the whole market.
A11	**(a) Both true; R explains A**	R explains A.
A12	**(d) A false, R true**	A is false (they are lenders); R is true.
A13	**contract note**	Sent on the trade day.
A14	**maturity**	Term to maturity = years left.
A15	**False**	Correct: they are credit rating agencies; NSE and BSE are exchanges.
A16	**True**	NSE was demutualised from the start.

Short answers

Part B · 2 marks

B1. Give two differences between the primary market and the secondary market. [2]

1. **Securities:** primary deals in new issues; secondary in existing listed securities. 1
2. **Money:** primary money goes to the company; secondary to the seller. 1

22 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1 | MUST DO

B2. Explain the two kinds of factors that affect share prices. [2]

1. **Stock-specific:** company profits, management, financial health, new products. 1
2. **Market-specific:** overall sentiment, economy, interest rates, policy. 1

15 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1 | MUST DO

B3. What is a demutualised stock exchange? [2]

1. **Meaning:** one in which ownership, management and trading rights are kept separate. 1
2. **Example:** NSE from the start; BSE since 2005. 1

20 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1

B4. State any two features of the screen-based trading system. [2]

1. **Automatic matching:** orders matched by computer on price–time priority. 1
2. **Transparency:** best prices visible to all; trading from anywhere. 1

19 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | Any two, 1 mark each

B5. What is a credit rating? Name two credit rating agencies in India. [2]

1. **Meaning:** an opinion on a borrower's ability to repay on time. 1
2. **Agencies:** CRISIL and ICRA. 1

15 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + ½ + ½

B6. Meena buys 100 shares at ₹250. Brokerage is 0.5%. Find the brokerage and her total cost. [2]

1. **Brokerage:** 100 × 250 = ₹25,000; 0.5% of it = ₹125. 1
2. **Total cost:** 25,000 + 125 = ₹25,125. 1

18 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1

Long answers

Part C · 4 marks

C1. Explain the terms: (a) bond and debenture (b) principal (c) coupon (d) maturity. [4]

1. **Bond and debenture:** bond for government debt; debenture for company debt. 1
2. **Principal:** amount borrowed, also face value. 1
3. **Coupon:** regular interest = principal × coupon rate. 1
4. **Maturity:** date the principal is repaid. 1

31 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each | MUST DO

C2. Describe the steps an investor follows to buy shares in the secondary market. [4]

1. **Accounts:** open trading, demat and bank accounts with KYC. 1
2. **Order:** place a buy order through the broker. 1
3. **Matching:** exchange matches it; contract note is sent. 1
4. **Settlement:** on T + 1 shares reach the demat account. 1

35 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each | MUST DO

C3. Compare equity investment and debt investment on four points. [4]

1. **Status:** owner vs lender. 1
2. **Return:** dividend and capital gain vs fixed interest. 1
3. **Risk:** higher vs lower. 1
4. **Repayment:** none vs principal on maturity. 1

22 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each

C4. Ajay buys 200 shares at ₹150 and sells them at ₹180. Brokerage is 0.4% on both trades. Find his net profit. [4]

1. **Buy cost:** 30,000 + 120 = ₹30,120. 1
2. **Sale amount:** 36,000 − 144 = ₹35,856. 1
3. **Profit:** 35,856 − 30,120 = ₹5,736. 2

20 words · CBSE asks 50–80 words | Marking: 1 + 1 + 2 = 4 | 1 + 1 + 2

C5. What is the role of credit rating agencies? Explain the rating symbols. [4]

1. **Role:** judge a borrower's ability to repay debt. 1
2. **Investors:** help investors compare the risk of bonds. 1
3. **Symbols:** AAA highest safety; BBB lowest investment grade. 1
4. **Low end:** BB to C risky; D means default. 1

33 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each

Case-based answers

Part D

D1. Case-Based · Riya's first trade (passage printed in Part D) [4]

(i) What type of order did Riya place? [1]

A **limit order** (at ₹400 or better).

(ii) When will the shares reach her demat account? [1]

On **Tuesday** – settlement is **T + 1**.

(iii) Which institution guarantees the trade, and what document does the broker send her? [2]

(1) The **clearing corporation** guarantees and settles it. (2) The broker sends a **contract note** on the trade day.

Marking: 1 + 1 + 2 = 4 | 1 + 1 + (1 + 1)

D2. Competency-Based · Choosing a bond (passage printed in Part D) [4]

(i) Find the yearly coupon of each bond. [1]

X: 1,000 × 7.5% = **₹75**; Y: 1,000 × 11% = **₹110**.

(ii) Why does Bond Y pay more? [1]

Its **low rating (BB)** shows higher risk of default, so it must offer more interest.

(iii) Which bond suits Mr Verma? Give two reasons. [2]

Bond X: (1) AAA means the **highest safety** of interest and principal. (2) He needs a **steady, sure income**, not high risk.

Marking: 1 + 1 + 2 = 4 | (½ + ½) + 1 + 2