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

PART B · UNIT 7

Mutual Funds

NAV · NFO · SIP · ETF · Active · Passive

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

Part B · 4 of 40 theory marks | 23 questions with model answers | Manish Mathur Sir | Taught: Fri 27 Nov (with Unit 8)

INSIDE THIS BOOKLET

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STUDENT DETAILS

NAME _____

CLASS & SECTION _____

ROLL NO. _____

UNIT FINISHED ON _____

OBJECTIVE SELF-CHECK _____ / 14

1

READ THIS FIRST · SHORT NOTES

Unit Notes

What a mutual fund is and how it works, its benefits, how NAV is calculated, returns on a scheme, the steps of a New Fund Offer, the main types of schemes, and the tools of active and passive fund management.

THIS UNIT IN THE BOARD PAPER

4 / 40

Unit 7 carries **4 marks**. In the CBSE sample paper it gave **1 one-mark item** (net asset value) and a **4-mark** question on the benefits of mutual funds. NAV sums and active vs passive funds are also likely.

SYLLABUS 2026–27 · WHAT CBSE LISTS FOR THIS UNIT

- Mutual fund: meaning and benefits
- Calculating NAV; returns of schemes
- Procedure of a New Fund Offer (NFO)
- Active and passive funds: tools and techniques
- Activity: find the best-suited scheme; role play of a portfolio manager

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 What is a mutual fund?

Mutual fund (MF): a trust that **pools money** from many investors and invests it in shares, bonds and other securities as per a stated objective. Investors get **units** in proportion to their money.

- Managed by an **Asset Management Company (AMC)** with expert **fund managers**.
- Regulated by **SEBI**; the industry body is **AMFI** (Association of Mutual Funds in India).
- Profit or loss of the fund is shared by all unit holders.

1. Investors pool money
2. Fund manager invests it
3. Investments earn returns
4. Returns go back to investors (higher NAV or dividends)

2 Benefits of mutual funds

- **Small investment:** start with a small amount (even ₹100–₹500 a month through a SIP).
- **Professional management:** experts study markets and pick investments.
- **Diversification:** money is spread over many securities, reducing risk.
- **Liquidity:** units of open-ended schemes can be sold back on any working day.
- **Transparency and safety of rules:** SEBI regulation; NAV published daily.
- **Choice:** equity, debt, hybrid, index funds to suit each investor.
- **Tax benefit:** ELSS (tax-saving) schemes.

3 Net Asset Value (NAV)

NAV = the value of **one unit** of a scheme.
NAV = (Market value of investments + other assets − liabilities and expenses) ÷ number of units outstanding

WORKED EXAMPLE
Investments ₹52,00,000 + cash ₹3,00,000 − liabilities ₹5,00,000 = ₹50,00,000. Units = 4,00,000. **NAV = 50,00,000 ÷ 4,00,000 = ₹12.50.**

RETURNS
Invest ₹10,000 at NAV ₹12.50 → 10,000 ÷ 12.50 = **800 units**. NAV later ₹15 → value 800 × 15 = ₹12,000. **Return = (15 − 12.50) ÷ 12.50 × 100 = 20%.**

4 New Fund Offer (NFO)

NFO: the **first offer** of units of a new mutual fund scheme to the public, like an IPO for a fund.

1. AMC prepares the **Scheme Information Document** and files it with **SEBI**
2. NFO is advertised; it stays open for a **short period** (usually up to 15 days)
3. Investors apply with KYC; units are usually offered at **₹10** each
4. Units are **allotted** after the NFO closes
5. Open-ended scheme then reopens for buying and selling at **NAV**

5 Types of schemes

Basis	Types
Structure	**Open-ended** (buy or sell any day at NAV) · **Close-ended** (fixed period; listed on exchange)
Where invested	**Equity** (shares) · **Debt** (bonds) · **Hybrid** (both) · **Money market** (short-term)
Style	**Active** fund · **Passive** fund: index fund, ETF
Way of investing	Lump sum · **SIP** (fixed amount every month)

6 Active and passive funds

Basis	Active fund	Passive fund
Aim	**Beat** the benchmark index	**Copy** the index (Nifty 50, Sensex)
Fund manager	Selects stocks and timing	Follows the index; little choice
Cost (expense ratio)	Higher	Lower
Examples	Large-cap, mid-cap funds	Index funds, ETFs

- **Active tools:** research on companies and economy, stock selection, market timing, sector rotation, regular portfolio review.
- **Passive tools:** index replication (same shares in same weights), rebalancing when the index changes, keeping **tracking error** low.

Key terms

15 terms

- **Mutual fund:** pooled money invested by experts
- **AMC:** company that manages the fund
- **Fund manager:** expert who picks investments
- **Unit:** share of a mutual fund
- **NAV:** value of one unit
- **NFO:** first offer of a new scheme
- **SIP:** fixed investment every month
- **Open-ended:** buy or sell any day at NAV
- **Close-ended:** fixed term; traded on exchange
- **ELSS:** tax-saving equity scheme
- **Index fund:** copies an index
- **ETF:** index fund traded on the exchange
- **Expense ratio:** yearly fee as % of assets
- **Tracking error:** gap between fund return and index return
- **AMFI:** industry body of mutual funds

Common mistakes and exam tips

AVOID THESE

- NAV = (assets – liabilities) ÷ **units**. Do not forget to subtract liabilities.
- Units bought = amount ÷ NAV.
- Active = **beat** the index; passive = **copy** the index.
- Mutual funds do **not** guarantee returns; they are subject to market risk.
- NFO is for a **new** scheme; after it, buying is at NAV.

A

PART A · 1 MARK EACH

Objective Questions

14 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. NAV stands for: [1]

(a) New Asset Value
(b) Net Asset Value
(c) Net Annual Value
(d) National Asset Value

A2. A mutual fund is managed by a(n): [1]

(a) Stock exchange
(b) Asset Management Company
(c) Depository
(d) Registrar

A3. Net assets ₹60,00,000; units 5,00,000. NAV is: [1]

(a) ₹10
(b) ₹12
(c) ₹15
(d) ₹30

A4. An investor puts ₹6,000 in a scheme at NAV ₹20. Units received: [1]

(a) 120
(b) 300
(c) 600
(d) 3,000

A5. The first offer of units of a new scheme is called: [1]

(a) IPO
(b) NFO
(c) FPO
(d) SIP

A6. A fund that copies the Nifty 50 is a(n): [1]

(a) Active fund
(b) Index (passive) fund
(c) Debt fund
(d) Close-ended fund

A7. Spreading money over many securities to reduce risk is called: [1]

(a) Speculation
(b) Diversification
(c) Dematerialisation
(d) Hedging

A8. Which scheme can be bought or sold on any working day at NAV? [1]

(a) Close-ended
(b) Open-ended
(c) Fixed deposit
(d) Bond

A9. ASSERTION–REASON [1]

Assertion (A): Passive funds usually have a lower expense ratio than active funds.
Reason (R): Passive funds do not need costly research and stock selection.

(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.

A10. ASSERTION–REASON [1]

Assertion (A): Mutual funds guarantee a fixed return.

Reason (R): Mutual funds are regulated by SEBI.

(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.

A11. FILL IN THE BLANK [1]

Investing a fixed amount in a mutual fund every month is called a _____.

A12. FILL IN THE BLANK [1]

The industry body of mutual funds in India is _____.

A13. TRUE OR FALSE [1]

An ETF is a passive fund whose units are traded on a stock exchange.

A14. TRUE OR FALSE [1]

In an active fund, the manager simply copies the index.

B — Short Answer Questions

PART B · 2 MARKS EACH

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

B1. What is NAV? How is it calculated? MUST DO [2]

B2. Differentiate between active and passive funds. MUST DO [2]

B3. Investments ₹90,00,000, cash ₹5,00,000, liabilities ₹15,00,000, units 8,00,000. Find NAV. [2]

B4. What is an NFO? [2]

B5. State two tools used by an active fund manager. [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 any four benefits of investing in mutual funds. MUST DO [4]

C2. Describe the procedure of a New Fund Offer. [4]

C3. Neha invests ₹15,000 at NAV ₹25. A year later NAV is ₹30. Find units, present value and return %. MUST DO [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 · Choosing a scheme for Arjun [4]

Arjun, 22, has just started working. He can save ₹2,000 a month, knows little about shares and does not have time to study the market. He wants low cost and is happy to earn what the market earns over ten years.

(i) Which way of investing suits his monthly savings? [1]

(ii) Should he choose an active fund or a passive fund? Why? [1]

(iii) Give two benefits of mutual funds that suit Arjun. [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) Net Asset Value**	Value of one unit.
A2	**(b) Asset Management Company**	AMC employs fund managers.
A3	**(b) ₹12**	60,00,000 ÷ 5,00,000 = 12.
A4	**(b) 300**	6,000 ÷ 20 = 300.
A5	**(b) NFO**	New Fund Offer.
A6	**(b) Index (passive) fund**	Replicates the index.
A7	**(b) Diversification**	A key MF benefit.
A8	**(b) Open-ended**	No fixed term.
A9	**(a) Both true; R explains A**	R explains A.
A10	**(d) A false, R true**	A false (market risk); R true.
A11	**SIP (Systematic Investment Plan)**	Builds discipline.
A12	**AMFI**	Association of Mutual Funds in India.
A13	**True**	Exchange Traded Fund.
A14	**False**	Correct: the manager tries to beat the index; copying is passive.

Short answers

Part B · 2 marks

B1. What is NAV? How is it calculated? [2]

1. **Meaning:** value of one unit of a scheme. 1
2. **Formula:** (investments + other assets – liabilities) ÷ units outstanding. 1

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

B2. Differentiate between active and passive funds. [2]

1. **Active:** manager picks stocks to beat the index; higher cost. 1
2. **Passive:** copies an index; lower cost. 1

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

B3. Investments ₹90,00,000, cash ₹5,00,000, liabilities ₹15,00,000, units 8,00,000. Find NAV. [2]

1. **Net assets:** 90,00,000 + 5,00,000 − 15,00,000 = ₹80,00,000. 1
2. **NAV:** 80,00,000 ÷ 8,00,000 = ₹10. 1

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

B4. What is an NFO? [2]

1. **Meaning:** first offer of units of a new scheme to the public. 1
2. **Price and period:** usually ₹10 a unit, open for a short period. 1

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

B5. State two tools used by an active fund manager. [2]

1. **Research and selection:** study companies and pick stocks. 1
2. **Market timing:** buy or sell at the right time; rotate sectors. 1

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

Long answers

Part C · 4 marks

C1. Explain any four benefits of investing in mutual funds. [4]

1. **Small investment:** start with a small amount through SIP. 1
2. **Professional management:** experts pick investments. 1
3. **Diversification:** money spread over many securities lowers risk. 1
4. **Liquidity:** open-ended units can be sold any working day. 1

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

C2. Describe the procedure of a New Fund Offer. [4]

1. **Document:** AMC files the scheme document with SEBI. 1
2. **Offer period:** NFO open for a short period, advertised. 1
3. **Apply and allot:** investors apply with KYC; units allotted, usually at ₹10. 1
4. **Reopen:** scheme reopens for trading at NAV. 1

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

C3. Neha invests ₹15,000 at NAV ₹25. A year later NAV is ₹30. Find units, present value and return %. [4]

1. **Units:** 15,000 ÷ 25 = 600. 1
2. **Value:** 600 × 30 = ₹18,000. 1
3. **Gain:** 18,000 − 15,000 = ₹3,000. 1
4. **Return:** 3,000 ÷ 15,000 × 100 = 20%. 1

26 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark per step | MUST DO

Case-based answers

Part D

D1. Case-Based · Choosing a scheme for Arjun (passage printed in Part D) **[4]**

(i) Which way of investing suits his monthly savings? [1]

A **SIP** (Systematic Investment Plan) of ₹2,000 a month.

(ii) Should he choose an active fund or a passive fund? Why? [1]

A **passive (index) fund** – it copies the market at a **low cost**.

(iii) Give two benefits of mutual funds that suit Arjun. [2]

(1) **Professional management** – he need not study the market. (2) **Diversification** and **small investment** – risk is spread even with ₹2,000.

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