Economy

- The economy of India is a developing mixed economy

- Gross Domestic Product (GDP) means a monetary measure of the market value of all final goods and services (both) produced in a period of time

- Different approaches for calculation of the GDP are:
  - The production approach, which sums the outputs of every class of enterprise to arrive at the total
  - The expenditure approach works on the principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to people total expenditures in buying things
  - The income approach works on the principle that the incomes of the productive factors ("producers," colloquially) must be equal to the value of their product, and determines GDP by finding the sum of all producers' incomes.

- While calculating GDP, following factors are excluded.:
  - Transfer payments
  - Second hand goods
  - Value of intermediate goods
- National income means the value of goods and services produced by a country during a financial year
- National income is measured by the following methods :
  - By product method
  - By income method
  - By expenditure method
- Net Domestic product means net output in a year
- Gross national product is calculated by Gross domestic product+ Net income from abroad
- Net national product is derived by Gross national product- Depreciation
- Domestic income includes dividends, salaries and wages and direct taxes
- Per capital income can be derived by National income/Population
- Micro economics deals with analysis of any single unit of economics.
- Macro economics deals with analysis of all units of economics studied together

- Different type(s) of economies are capitalist economy, socialist economy, mixed economy

Book Titled	Written by	Aspect discussed
An enquiry into the nature and cause of the wealth of nations’	**Adam Smith**	Wealth
An essay on the nature and significance of Economic Science	Lionel Robbins	Scarcity and choice aspect
Principles of economics	Alfred Marshall	Welfare
Economics’: An introductory analysis	Paul Samuelson	Development and growth

- The value of alternative foregone in order to have something else is known as Opportunity cost
- A capitalist economic system is one which is characterized by free markets and the absence of Government intervention in the economy
- Positive economics deals with scientific issues and questions
- Normative economics deals with ethical issues, questions and problems
- The factors determining the demand for a commodity is/are:

- Price of the commodity
- Income of the consumer
- Taste and preferences and demographic factors

- The law of diminishing marginal utility states that as the stock of a commodity increases with the consumer, its marginal utility to the consumer decreases
- The law of demand describes that in normal situations, quantity demanded of a good falls when its price increases and vice versa
- The law of supply states that a firm will produce and offer to sell greater quantity of a product or service as the price of that product or services rises, other things being equal
- The supply curve is upward sloping
- The utility can be measured by Cardinal approach or Ordinal approach
- When a consumer buys a goods, the utility derived from it varies with its quantity and generates the concept, which is called as Total utility, Average utility, Marginal utility
- Demand curve shows the relationship between the quantities of goods which consumers would be willing to purchase at alternative prices

- Supply curve shows the relationship between the quantities supplied of a commodity by the producer at alternative prices
- A utility measurement based on the presumption that the satisfaction of wants and needs is a quantifiable characteristics of human activity, is called as Cardinal utility.
- The **Cardinal Utility approach** is propounded by neo-classical economists, who believe that **utility** is measurable, and the customer can express his satisfaction in **cardinal** or quantitative numbers, such as 1,2,3, and so on. ... Here, one Util is equivalent to one rupee and the **utility** of money remains constant.
- A utility measurement based on the presumption that the satisfaction of wants and needs is not a quantifiable characteristics of human activity, is called as Ordinal utility
- A consumer goods for which demand rises when the price increases and the demand falls when price decreases, is called as Giffen goods
- The function relationship between input and output is known as Production function
- Law of returns to scale is a long run concept
- A firm which produces a product, of which no close substitute is available in the market, is known to enjoy Monopoly
- The market structure in which each seller produces a differentiated products is called as Monopolistic competition

Particulars	Elasticity of demand	Elasticity of supply
The ratio of percentage change quantity in demanded/Supplied to percentage change in some other factor like price or income is called:-	Elasticity of demand	Elasticity of Supply
When a very significant change in price leads to an infinite change in quantity demanded/supplied, is called :-	Perfectly elastic demand	Perfectly elastic Supply
When regardless of a change in price , there is no change in the quantity demanded/supplied of a commodity , it is called:-	Perfectly inelastic demand	Perfectly inelastic Supply
When a small change in price causes a greater change in quantity demanded/supplied, it is called:-	Relatively elastic demand	Relatively elastic Supply
Where a greater change in price leads to smaller	Relatively inelastic	Relatively inelastic

FINANCIAL MARKETS

- A Financial market is a market in which people trade financial securities, commodities, and value at low transaction costs and at prices that reflect supply and demand
  The money market is a market for short term funds, which deals in financial assets whose period of maturity is upto one year
- Equity shares are not the money market instruments as against call money, treasury bill and certificate of deposits.
- Certificate of deposit is issued by commercial banks and special financial institutions (SFIs)
- Capital market may be defined as a market dealing in medium and long term funds
- Secondary market means a market where securities are traded after being initially offered to the public in the primary market and/or listed on the stock exchange
- Commercial paper (CP)is issued by companies
- Spot market is where securities are traded for immediate delivery and payment
- Forward market is where the securities are traded for future delivery and payment
- A put option gives right but not an obligation to the owner to sell a security to the writer of the option at a predetermined price before a certain date
- A call option gives right but not an obligation to the buyer to purchase a security from the write of the option at a particular price before a certain date
- Derivatives are securities defined under the Securities Contracts (Regulation) Act, 1956
- A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security, is called as derivative instruments

- A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future
- A future contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price
- Bid-ask spreads is an example of implicit cost
- Baby bond (US) is a bond with a face value of less than $1000 usually in $100 denominations
- Carrying forward of transactions from one settlement period to another without effective delivery is known as Bald
- Balanced Funds are funds which aim to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their documents.
- Banc assurance is the phenomenon whereby a financial institution combines the selling of banking products and insurance products through the same distribution channel:
- A scheduled bank carrying on all of any of the issue related activities namely acceptance of application and application monies; acceptance of allotment or call monies, refund of application monies; and payment of dividend or interest warrants is termed as Bankers to an issue

- A pessimist market operator who expects the market price of shares to decline is known as Bear
- Bearer bonds are Securities which do not require registration of the name of the owner in the books of the company and interest and principal are paid to the holder of the instrument, whenever become due
- Security used as the basis for interest rate calculations and for pricing other securities is known as Bench Mark. It also denotes the most heavily traded and liquid security of a particular class.
- A measure of the volatility of a stock relative to the market index in which the stock is included is known as Beta
- A low beta indicates relatively low risk
- A high beta indicates High risk
- Buying and selling a block of securities which usually takes place when restructuring or liquidating a large portfolio is known as Block trading
- A security offering that sells out almost immediately is known as Blow out
- The best rated shares with the highest status as investment based on return, yield, safety, marketability and liquidity are known as blue chip shares.

- Laws passed by the states in the U.S to protect investors are termed as Blue sky(US)
- Book building is a process by means of which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document
- Bucketing is a situation where, in an attempt to make a short-term profit, a broker confirms an order to a client without actually executing it
- Butterfly spread is an option strategy involving the simultaneous sale and purchase of an instrument.
- A bond denominated in sterling but issued by a non-British borrower is known as Bulldog bond
- To buy on margin means to buy shares with money borrowed from the stockbroker, who maintains a margin account for the customer.

- Capital asset pricing model is an economic theory that describes the relationship between risk and expected return and serves as a model for the pricing of risky securities:
- Chinese walls are artificial barriers to the flow of information set up in large firms to prevent the movement of sensitive information between department:
- Contract note is a note issued by a broker to his constituents setting out the number of securities bought or sold in the market along with the rate, time and date of contract
- Conversion ratio is the narrowing of the difference between the future contract and the value of the underlying assets during the final days of the contract
- Dabba trading is the trading of securities outside the stock exchanges
- Dematerialization is the process of transforming securities holdings in physical form to those in electronic form through a depository participant:
- Derivative is a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.

- A Dutch auction is one of several similar types of auctions for buying or selling goods. Most commonly, it means an auction in which the auctioneer begins with a high asking price in the case of selling, and lowers it until some participant accepts the price, or it reaches a predetermined reserve price.
- European option is a put or call that can be exercised only on its expiration date.
- Firewall is a barrier designed to prevent losses or risks taken in one part of a financial institution from weakening other parts of institution.
- Floor price is the minimum offer price below which bids cannot be entered .
- Green Shoe Option is an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the specific provisions in DIP guidelines, which is granted for a company to be exercised through a stabilizing agent.
- Herfindahl-Hirschman (HH) Index is the sum of the squares of the market shares of companies in any given industry. It is a measure of industry concentration and is more sensitive to the effects of mergers than simple market shares.

- Junk bond is a High yield bond issued by low rated companies:
- A unique identification number allotted for each security in the depository system by SEBI is called (ISIN) International securities identification number.
- Mumbai interbank bid and offer rates are called MIBOR
- An option that is written without corresponding security or option position as protection in seller account is known as Naked option
- Net worth is the aggregate value of the paid up equity capital and free reserves (excluding reserves created out of revaluation), reduced by the aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.
- Reverse repo is the purchase of securities with an agreement to resell them at a higher price at a specific future date.

- ❑The price in contracts for put options and call options, at which the option can be exercised is known as strike price
- ❑SWAP is a financial transaction which exploits arbitrage opportunities between markets and in which two counter parties agree to exchange streams of payments over time according to a predetermined rule.
- ❑Sweat equity are the Equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions.
- ❑SWIFT is a dedicated computer network to support funds transfer message internationally between member banks world-wide.
- ❑Systematic risk is the risk that affects an entire financial market or system, and not just specific participants.
- Treasury bill is a short term bearer discount security issued by Governments as a means of financing their cash requirements.

- The rate of return anticipated on a bond if it is held until the maturity date is called Yield to maturity
- A bond that pays no interest while the investors holds it is called Zero coupon bond

Basic Concepts of Valuation