B.K. BIRLA CENTRE FOR EDUCATION
SARALA BIRLA GROUP OF SCHOOLS
A CBSE DAY-CUM-BOYS' RESIDENTIAL SCHOOL

POST MID TERM TEST, 2025-26
FINANCIAL MARKET MANAGEMENT 805

Class: XI — **MARKING SCHEME** — **Time: 1hr**
Date: 10/01/2026 — **Max Marks: 25**
Admission no: — **Roll no:**

INSTRUCTION:
I. Question paper comprises four Sections–A, B,C and D. There are12 questions in the question paper.
II. All questions are compulsory.
III. Section A –Question 1 to 5 are MCQs of 1 mark each.
IV. Section B–Question no.6 to 9 is Very Short Answer Type Questions, carrying 2marks each. Answer to each question should not exceed 20-40 words.
V. Section C-Question no.10 and 11 are Short Answer Type Questions, carrying 3marks each. Answer to each question should not exceed 40-60 words.
VI. Section D–Question no.12 is Long Type Question, carrying 6 mark. Answer to this question should not exceed 80-100 words.

SECTION-A

1. An ETF is best described as a: 1
a) Debt instrument issued by the government
b) Mutual fund scheme traded on a stock exchange
c) Type of savings account
d) Long-term fixed deposit

2. Which of the following is not a type of ETF? 1
a) Equity ETF
b) Gold ETF
c) Real Estate ETF
d) Fixed Deposit ETF

3. **Assertion (A):** Sectoral ETFs provide focused exposure to a specific industry, helping investors benefit when that sector outperforms.
Reason (R): Sectoral ETFs are diversified across multiple industries and therefore reduce concentration risk. 1
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

4. **Assertion (A):** A major limitation of Sectoral ETFs is that they are highly sensitive to economic cycles affecting that particular industry.
Reason (R): Sectoral ETFs spread investment across different sectors, lowering volatility. 1
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

5. Debt ETFs generally invest in: 1
a) Gold and silver
b) Government securities and corporate bonds
c) Equity shares of large companies
d) Real estate projects

SECTION –B

6. Explain any two types of debt funds based on maturity profile. 2
Ans. a. Liquid Funds: These funds invest in very short-term money market instruments with a maturity of up to 91 days. They offer high liquidity and low risk.
b. Short-Term Debt Funds: These funds invest in debt instruments with a maturity ranging from 1 to 3 years and are suitable for investors seeking stable returns with moderate risk.
7. What are Liquid Funds and how do they differ from Short-Term Debt Funds? 2
Ans. Liquid Funds invest in money market instruments with a maturity of up to 91 days, offering very high liquidity and low volatility.
Short-Term Debt Funds invest in securities with a longer maturity of 1–3 years, which makes them slightly riskier and suitable for short to medium investment horizons.
8. State any two reasons why debt funds are important for a conservative investor. 2
Ans. a. Lower Risk: Debt funds invest in fixed-income securities and offer more stability than equity funds.
b. Regular Income: They generate steady interest-based returns, making them suitable for conservative investors.
9. Mention two ways in which debt funds help in portfolio diversification. 2
Ans. a. Reduce Volatility: Adding debt funds lowers the overall risk of a portfolio dominated by equity.
b. Stable Returns: Debt funds balance the portfolio by providing consistent returns even when equity markets are volatile.

SECTION C

10. Explain any three major types of Exchange Traded Funds (ETF). 3
Ans. a. Equity ETFs: These ETFs track an equity index like Nifty or Sensex. They invest in the same stocks in the same proportion as the index.
b. Gold ETFs: These ETFs invest in 99.5% pure gold, allowing investors to gain exposure to gold prices without holding physical gold.
c. Debt ETFs: These ETFs invest in government securities, corporate bonds, and money market instruments, providing stable returns with lower risk.
11. Describe any three risk factors associated with investing in ETFs. 3
Ans. a. Market Risk: ETF prices fluctuate according to the performance of the underlying index or asset.
b. Tracking Error: Sometimes, ETF performance may not exactly match the index due to expenses, liquidity, and execution delays.
c. Liquidity Risk: Some ETFs have low trading volumes, making it difficult to buy or sell units at the desired price.

SECTION D

12. Explain Liquid Funds in detail. 6
Ans. Liquid funds are a category of debt mutual funds that invest mainly in short-term money market instruments with a maximum maturity of up to ninety-one days. They are designed to provide

investors with a safe place to park surplus money for very short durations while earning slightly higher returns than a savings account. These funds maintain extremely low risk because they invest only in high-quality instruments such as Treasury Bills issued by the Government of India, Commercial Papers issued by reputed companies, Certificates of Deposit issued by banks, and short-term call or notice money used for interbank lending. Since these instruments mature quickly, liquid funds face minimal interest rate fluctuation and credit risk, which helps them deliver stable and predictable returns.

One of the major features of liquid funds is their high liquidity, as investors can withdraw their money at any time without any lock-in period, and many funds even offer instant redemption facilities up to a specified limit. Liquid funds also have a low expense ratio, meaning the cost of managing the fund is very small, allowing investors to retain most of their earnings. They are considered one of the safest mutual fund categories because their portfolios contain short-maturity, low-risk instruments.

Moreover, liquid funds are suitable for individuals and businesses who want to temporarily park idle money—for example, emergency funds, short-term goals, or surplus cash between two transactions. Overall, liquid funds combine safety, liquidity, and reasonable returns, making them an excellent short-term investment option in financial markets.

OR

Explain Gold Exchange Traded Funds (Gold ETFs) in detail.

Ans. Gold Exchange Traded Funds, commonly known as Gold ETFs, are financial instruments that allow investors to invest in gold without physically holding the metal. A Gold ETF is a type of mutual fund listed and traded on stock exchanges, and it invests exclusively in physical gold of 99.5% purity. Each unit of a Gold ETF usually represents one gram of gold, and its price moves in close relation to the market price of gold. Investors buy and sell Gold ETF units through a Demat and trading account just like they trade shares, which makes the investment process simple, transparent, and highly convenient. Since the fund holds actual physical gold in secure vaults, investors get the benefit of gold ownership without worrying about storage, theft, or purity issues.

Gold ETFs offer several attractive features such as high liquidity, as units can be bought or sold easily on the exchange at market prices. They also have low transaction costs since there are no making charges, storage costs, or insurance expenses associated with physical gold. Gold ETFs are considered efficient investment tools because they provide exposure to gold as an asset class, which acts as a hedge against inflation, currency depreciation, and market volatility. These funds are regulated by SEBI, ensuring transparency and safety. However, Gold ETFs also have some limitations; they require a Demat account for trading, and their value can fluctuate based on gold prices, which may lead to short-term volatility. Additionally, unlike physical gold, Gold ETFs cannot be directly used for jewellery or personal use. Despite these limitations, Gold ETFs remain one of the most secure, cost-effective, and hassle-free ways to invest in gold in the modern financial market.