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SEBI Grade A 2020

Phase 2 Paper 1

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Q.1 Write an Essay of about 200 words on any one of the following topics: -(30 Marks)

1.Importance of teamwork in an organization.

Teamwork is used across many different industries to increase performance, employee unity and company culture. Companies that must frequently develop new ideas or products using a project-based approach assemble teams in order to diffuse responsibility and to increase the number and diversity of ideas for the project. Team members use teamwork to bounce ideas off one another before deciding on a development path for a project. Teamwork is important due to the problem-solving synergy gained from multiple minds working on a solution. When one person works on a specific company problem, that person only has her personal experience and knowledge from which to pull for solutions. Using teamwork, team members pool their collective ideas together to generate unique ideas for dealing with problems. Problems in this case are not purely negative. The problem could be developing a product for a consumer to address a need that the consumer does not know that she has. Two or more people working together also build upon one another's ideas, weeding out the weak parts and making the ideas better. When a team is cohesive and works well together, it gives team members a feeling that they belong to something good. Everyone wants to be on a winning team, but you can't win all the time. Belonging to the team makes the setbacks more bearable because they're shared. Team members console one another and prop each other up, reminding everyone of their successes and that together, they will be victorious again. This promotes strong working relationships.

Teamwork is the backbone of effective communication within a company. When employees work as individuals or independently on projects, they may not readily share knowledge or new information. This lack of communication increases the time it takes to complete projects, tasks or the development of solutions. Teamwork promotes conversation between employees regarding the task at hand, possibly preventing employees from working in opposite directions. For example, if one employee does not communicate that one method of addressing a problem is a dead end, and another employee is still trying to use that method, productivity is lowered. Two working together may also feel more emboldened to ask a third person for advice or input, or to point out what doesn't make sense in the project, rather than spinning their wheels on something that isn't working. Cohesion is an important byproduct of teamwork within a company. This cohesion could be the result of increased chemistry, trust or both from working on projects as a team. Cohesive employees are less likely to be confrontational toward one another and more accepting of each other's decisions. Cohesion from teamwork can greatly increase the work-flow speed of a company. When employees work together as a team within a company, every employee learns from one another. This knowledge is not limited to the personal experiences of coworkers; employees from different departments may learn information from each other regarding the limitations and possibilities of those departments. For example, if a marketing department consistently makes demands with unrealistic deadlines to another department, the marketing department may see through teamwork because its requests are unreasonable.

2. Pros and Cons of Mergers and acquisitions of companies.

When companies come together through the mergers and acquisitions process [M&A], there are numerous issues that must be analyzed to determine if the benefits of such a move outweigh the risks that are involved. There are always benefits to the M&A process and there are always disadvantages. Even long-term advantages may outweigh short-term difficulties. This is why evaluating the numerous pros and cons of mergers and acquisitions that are transaction specific is so important. The Pros of Mergers and Acquisitions

1. It adds more value to the combined entity than either individual company can produce on its own. At its heart, the M&A process is all about reducing duplication so that more efficiencies can be achieved. The end result is typically an enhance level of overall revenue because there aren't costly redundancies that occur through the product chain.

2. It opens up new markets for both companies. Once an organization has merged with another, it instantly gains a new market share that it may not have had before. Many people within an industry are brand loyal and the M&A process allows people to maintain that loyalty while potentially transitioning to new goods or services.

3. It is a cost-effective method to fuel expansion. If a business has to upgrade their internal processes or their existing technologies on their own, then this can create a massive charge on several budget lines that can be difficult, if not impossible, to absorb.

4. It can create multiple growth opportunities. Two businesses that may have been competing against each other now work together as one entity in the completion of the M&A process. This means they are more effective on a local level at providing economic benefits because there isn't a "race to the bottom" occurring.

The Cons of Mergers and Acquisitions

1. It creates distress within the employee base of each organization. The M&A process invariably consolidates positions within the companies that are duplicated. This often means that there is a chance layoff could occur, which would place people out of work for an indefinite period of time.

2. It may increase the amount of debt that is owed. If there are debts owed by either organization [or both], then the M&A process may increase the balance sheet debt of the combined company.

3. There can be differences in corporate culture that are not easy to consolidate.

4. It isn't a one-person decision most of the time.

The pros and cons of mergers and acquisitions show that this business transaction should not be something that is just rushed into without thought. An empowered decision is required. By evaluating all of the key points, it becomes more likely that the best possible decision can be made.

3. Role of technology in detecting and preventing financial frauds.

Along with precautionary, well-designed fraud prevention procedures, once fraud occurs, how companies can detect it promptly and efficiently is also of great importance. With financial statement fraud for example, when investigators dedicate themselves to probing for suspicious transactions or activities, they traditionally perform inspections on every voucher and invoice of every transaction. If the quantity of transactions is too large for them to tackle, they usually choose an alternative method: a selective check based on the filtered importance threshold. However, there is still a possibility that fraudulent transactions remain undiscovered since the checks are selective, not comprehensive. Thanks to the evolution of technology, investigators can now conduct a thorough and complete audit of entire populations of transactions in a relatively short period. So how can technology improve the efficiency of the fraud detection process? As previously illustrated, a full and detailed examination can now be achieved via data analysis. Additionally, technology could be integrated into the fraud investigation process. In our experience, once fraud is discovered, the first step was to build a basic background information understanding. In this aspect, it is necessary to comprehend a fraudster's relatives and close friends to establish his or her interpersonal relationships, then try to clarify the accomplice network. The prevalence of mobile phones and social networking apps such as Facebook, Twitter, WeChat, Instagram and WhatsApp provides investigators with a great opportunity to observe fraudsters' interests, lifestyle and characteristics. In addition, social networking analysis tools, like NodeXL, SVAT, Gephi, etc., could be deployed to achieve the same goal.

Evidence of specific or unprecedented accounting subjects, such as temporary payments or account receivables factoring, are also red flags. Those anomalies could be identified via several data analysis tools like SAP, CaseWare IDEA, etc. Another investigative phase is to appropriately and legitimately collect evidence. In a digital world, almost all data is stored on electronic devices, such as cellphones, computers, servers, cloud systems, etc. Thus, it is vital to gather digital evidence through proper devices to prevent them from being polluted, which might result in them being unable to be presented in court. In this regard, forensic tools such as Encase, FTK or Helix are certified and commonly employed by investigators. Lastly, it is requisite to summarize all the information and make an interpretation –a task which is traditionally completed by investigators. With the development of computer technology, some programmes, such as Qlik or Tableau, could be applied to comprehensively display trends and variables, so that the whole story can be seen. Fraud can indeed cause great damage to companies –both financially and reputationally. However, with the assistance of sound and complete fraud prevention and management procedures, the possibility of fraud can be reduced to a certain extent. In addition, through efficient fraud detection methods, particularly the aforementioned technologies, not only can losses be reduced instantly, but a company can also demonstrate its fraud-resolving determination to society. Only when preventive measures and post-response actions complement each other can fraud risks be effectively deterred and controlled.

4. Fake news and how to identify them.

Fake news is false or misleading information presented as news. It often has the aim of damaging the reputation of a person or entity or making money through advertising revenue. However, the term does not have a fixed definition, and has been applied more broadly to include any type of false information, including unintentional and unconscious mechanisms, and also by high-profile individuals to apply to any news unfavorable to his/her personal perspectives. Once common in print, the prevalence of fake news has increased with the rise of social media, especially the Facebook News Feed. Political polarization, post-truth politics, confirmation bias, and social media algorithms have been implicated in the spread of fake news. It is sometimes generated and propagated by hostile foreign actors, particularly during elections. The use of anonymously hosted fake news websites has made it difficult to prosecute sources of fake news for libel. In some definitions, fake news includes satirical articles misinterpreted as genuine, and articles that employ sensationalist or clickbait headlines that are not supported in the text. Multiple strategies for fighting fake news are currently being actively researched and need to be tailored to individual types of fake news. Effective self-regulation and legally enforced regulation of social media and web search engines are needed. The information space needs to be flooded with accurate news to displace fake news. Individuals need to actively confront false narratives when spotted, as well as take care when sharing information via social media. However, reason, the scientific method and critical thinking skills alone are insufficient to counter the broad scope of bad ideas. Overlooked is the power of confirmation bias, motivated reasoning and other cognitive biases that can seriously distort the many facets of immune mental health. Inoculation theory shows promise in designing techniques to make individuals resistant to the lure of fake news, in the same way that a vaccine protects against infectious diseases.

- Consider the source (to understand its mission and purpose)
- Read beyond the headline (to understand the whole story)
- Check the authors (to see if they are real and credible)
- Assess the supporting sources (to ensure they support the claims)
- Check the date of publication (to see if the story is relevant and up to date)
- Ask if it is a joke (to determine if it is meant to be satire)
- Review your own biases (to see if they are affecting your judgment)
- Ask experts (to get confirmation from independent people with knowledge).

Considerable research is underway regarding strategies for confronting and suppressing fake news of all types, in particular disinformation, which is the deliberate spreading of false narratives for political purposes, or for destabilizing social cohesion in targeted communities. Multiple strategies need to be tailored to individual types of fake news, depending for example on whether the fake news is deliberately produced, or rather unintentionally or unconsciously produced.

Q.2 Read the given passage and draft a precis within 170 words: -(30 Marks)

For decades, psychologists and sociologists have pushed back against the theories of mainstream finance and economics, arguing that human beings are not rational utility-maximizing actors and that markets are not efficient in the real world. The field of behavioral economics arose in the late 1970s to address these issues, accumulating a wide swath of cases when people systematically behave "irrationally." The application of behavioral economics to the world of finance is known, unsurprisingly, as behavioral finance. From this perspective, it's not difficult to imagine the stock market as a person: It has mood swings (and price swings) that can turn on a dime from irritable to euphoric; it can overreact hastily one day and make amends the next. But can human behavior really help us understand financial matters? Does analyzing the mood of the market provide us with any hands-on strategies? Behavioral finance theorists suggest that it can. Behavioral finance is a subfield of behavioral economics, which argues that when making financial decisions like investing people are not nearly as rational as traditional finance theory predicts. For investors who are curious about how emotions and biases drive share prices, behavioral finance offers some interesting descriptions and explanations. The idea that psychology drives stock market movements flies in the face of established theories that advocate the notion that financial markets are efficient. Proponents of the efficient market hypothesis (EMH), for instance, claim that any new information relevant to a company's value is quickly priced by the market. As a result, future price moves are random because all available (public and some non-public) information is already discounted in current values.

We can ask ourselves if these studies will help investors beat the market. After all, rational shortcomings should provide plenty of profitable opportunities for wise investors. In practice, however, few if any value investors are deploying behavioral principles to sort out which cheap stocks actually offer returns that are consistently above the norm. The impact of behavioral finance research still remains greater in academia than in practical money management. While theories point to numerous rational shortcomings, the field offers little in the way of solutions that make money from market manias. The behavioralists have yet to come up with a coherent model that actually predicts the future rather than merely explain, with the benefit of hindsight, what the market did in the past. The big lesson is that theory doesn't tell people how to beat the market. Instead, it tells us that psychology causes market prices and fundamental values to diverge for a long time. Behavioral finance offers no investment miracles to capitalize on this divergence, but perhaps it can help investors train themselves on how to be watchful of their behavior and, in turn, avoid mistakes that will decrease their personal wealth.

Solution:

Behavioral Finance: -a new study.

Behavioral finance asserts that rather than being rational and calculating, people often make financial decisions based on emotions and cognitive biases. For instance, investors often hold losing positions rather than feel the pain associated with taking a loss. The instinct to move with the herd explains why investors buy in bull markets and sell in bear markets. Behavioral finance is useful in analyzing market returns in hindsight but has not yet produced any insights that can help investors develop a strategy that will outperform in the future. However, for anyone who has been through the Internet bubble and the subsequent crash, the efficient market theory is pretty hard to swallow. Behaviorists explain that, rather than being anomalies, irrational behavior is commonplace. In fact, researchers have regularly reproduced examples of irrational behavior outside of finance using very simple experiments

Q.3Read the given passage and answer the given questions: -(40 Marks)

Money, whether it's represented by a metal coin, a shell or a piece of paper, doesn't always have value. Its value depends on the importance that people place on it—as a medium of exchange, a unit of measurement, and a storehouse for wealth. Money allows people to trade goods and services indirectly, it helps communicate the price of goods (prices written in dollar and cents correspond to a numerical amount in your possession, i.e.in your pocket, purse, or wallet), and it provides individuals with a way to store their wealth in the long-term. Money is valuable merely because everyone knows that it will be accepted as a form of payment. However, throughout history, both the usage and the form of money have evolved. While most of the time, the terms "money" and "currency" are used interchangeably, there are several theories that suggest that these terms are not identical. According to some theories, money is inherently an intangible concept, while currency is the physical (tangible) manifestation of the intangible concept of money. Being rich is simply having a lot of money or income. It comes down to how much cash you have in your bank account. But just because you're rich, doesn't mean you are wealthy. In fact, being rich can often mean that you are spending a lot of money. It can also mean that you have a lot of debt. It doesn't matter how much money you have if your expenses are higher than your income.

By extension, according to this theory, money cannot be touched or smelled. Currency is the coin, note, object, etc. that is presented in the form of money. The basic form of money is numbers; today, the basic form of currency is paper notes, coins, or plastic cards (e.g.credit or debit cards). While this distinction between money and currency is important in some contexts, for the purposes of this article, the terms are used interchangeably. Money–in some way, shape or form–has been part of human history for at least the last 3,000 years. Before that time, historians generally agree that a system of bartering was likely used. One of the greatest achievements of the introduction of money was increasing the speed at which business, whether mammoth-slaying or monument-building, could be done. The 21st century has given rise to two novel forms of currency: mobile payments and virtual currency. Mobile payments are money rendered for a product or service through a portable electronic device, such as a cell phone, smartphone, or a tablet device. Mobile payment technology can also be used to send money to friends or family members. Increasingly, services like Apple Pay and Google Pay are vying for retailers to accept their platforms for point-of-sale payments. Bitcoin, released in 2009 by the pseudonymous Satoshi Nakamoto, quickly became the standard for virtual currencies. Virtual currencies have no physical coinage. The appeal of virtual currency is it offers the promise of lower transaction fees than traditional online payment mechanisms, and virtual currencies are operated by a decentralized authority, unlike government-issued currencies. Despite many advances, money still has a very real and permanent effect on how we do business today.

Q.1 On the basis of the passage, describe why money is considered as an idea.

Ans. Money is considered an idea because everyone knows that it will be accepted as a form of payment. However, throughout history, both the usage and the form of money have evolved. Money, whether it's represented by a metal coin, a shell or a piece of paper, doesn't always have value. Its value depends on the importance that people place on it—as a medium of exchange, a unit of measurement, and a storehouse for wealth.

Q.2 Discuss how money is intangible according to the passage.

Ans. While most of the time, the terms "money" and "currency" are used interchangeably, there are several theories that suggest that these terms are not identical. According to some theories, money is inherently an intangible concept, while currency is thephysical (tangible) manifestation of the intangible concept of money. Money, whether it's represented by a metal coin, a shell or a piece of paper, doesn't always have value. Its value depends on the importance that people place on it—as a medium of exchange, a unit of measurement, and a storehouse for wealth.

Q.3 According to author, what is difference between having money and being rich.

Ans. As stated, being rich is simply having a lot of money or income. It comes down to how much cash you have in your bank account. But just because you're rich, doesn't mean you are wealthy. In fact, being rich can often mean that you are spending a lot of money. It can also mean that you have a lot of debt. It doesn't matter how much money you have if your expenses are higher than your income.

Q.4 Describe the evolution of money on the basis of the passage.

Ans. Money–in some way, shape or form–has been part of human history for at least the last 3,000 years. Before that time, historians generally agree that a system of bartering was likely used. Money allows people to trade goods and services indirectly, it helps communicate the price of goods (prices written in dollar and cents correspond to a numerical amount in your possession, i.e.in your pocket, purse, or wallet), and it provides individuals with a way to store their wealth in the long-term.

Q.5 Discuss why money is considered important as a commodity.

Ans. One of the greatest achievements of the introduction of money was increasing the speed at which business, whether mammoth-slaying or monument-building, could be done. The 21st century has given rise to two novel forms of currency: mobile payments and virtual currency. Mobile payments are money rendered for a product or service through a portable electronic device, such as a cell phone, smartphone, or a tablet device. Mobile payment technology can also be used to send money to friends or family members. Increasingly, services like Apple Pay and Google Pay are vying for retailers to accept their platforms for point-of-sale payments.