**Financial Institutions and Markets**

**Jun 2025 Examination**

**Q1. Amit, an aspiring entrepreneur, is planning to start a café business and approaches a commercial bank for a business loan. During his discussion with the bank manager, he learns that banks not only provide loans but also play a crucial role in managing savings and facilitating investments.He also realizes that commercial banks act as financial intermediaries, helping individuals and businesses by ensuring the smooth flow of funds in the economy.With the given scnenario,explain important functions of commercial bank and Analyze how banks use credit creation to promote entrepreneurship and overall economic development. (10 Marks)**

**Ans 1.**

**Introduction**

Amit’s decision to approach a commercial bank for funding highlights the foundational role these institutions play in modern economies. Commercial banks are pivotal in mobilizing savings, extending credit, and facilitating investment—activities that are essential for both individual and business financial needs. For aspiring entrepreneurs like Amit, banks not only offer financial support through loans but also serve as advisors and facilitators in managing funds. They ensure that surplus units (savers) are connected to deficit units (borrowers), thereby sustaining a balanced and productive economic environment. By efficiently allocating resources, commercial banks act as financial intermediaries, encouraging entrepreneurship,

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**Q2. Arun, a young professional, has recently started his career and is keen on ensuring financial security for himself and his family. During a discussion with a financial advisor, he learns that insurance companies function as financial intermediaries by collecting premiums from policyholders and investing these funds to provide financial protection. Curious about the benefits of life insurance, Arun wants to explore the various life insurance plans available in the market. Evaluate some of the insurance plans that can help him safeguard his future and protect his loved ones from financial uncertainties. (10 Marks)**

**Ans 2.**

**Introduction**

In the early stages of his professional life, Arun is making a wise and forward-thinking move by exploring financial protection for himself and his family. Life is filled with uncertainties, and ensuring financial stability in times of crisis is essential for long-term well-being. Insurance companies serve as financial intermediaries, collecting premiums and investing them to offer risk coverage and capital growth. Life insurance, in particular, plays a vital role in this regard, offering protection against the economic consequences of death or unforeseen incidents. Through structured savings, investment benefits, and risk coverage, life insurance helps individuals like Arun plan for a secure future. Understanding the different types of life

**Q3A. Ms. Priya, a recent bank recruit, has started earning a steady income and aims to build her financial future by saving and investing wisely. Her colleagues suggest that Mutual Funds (MFs) could be an ideal investment option. However, as she is unfamiliar with MFs, she wants to develop a personalized investment strategy that aligns with her financial goals and risk appetite.As a financial advisor, help Ms. Priya design a suitable mutual fund investment plan by addressing the following:a) Create an investment strategy that explains mutual funds and how they can help Ms. Priya achieve her financial goals. (5 Marks)**

**Ans 3a.**

**Introduction**

As a recent bank recruit, Ms. Priya has taken a commendable step toward securing her financial future by considering mutual funds for investment. Mutual funds are pooled investment vehicles managed by professional fund managers, offering diversified exposure across various asset classes. They suit a wide range of investor profiles depending on financial goals and risk appetite. For someone new to investing, mutual funds provide an accessible, flexible, and relatively low-risk entry into capital markets. Designing a strategy tailored to her needs can

**Q3B. In context to the above scenario,Design a diversified mutual fund portfolio by selecting different types of mutual funds based on her risk appetite and investment objectives( Short , medium and long term goals). Justify your choices. (5 Marks)**

**Ans 3b.**

**Introduction**

Building a diversified mutual fund portfolio tailored to Ms. Priya’s goals and risk profile is key to achieving financial success. Diversification minimizes risk by spreading investments across asset classes, time horizons, and fund types. As a young investor with a steady income, Ms. Priya can afford a balanced exposure to both growth-oriented and stable investment options. By aligning fund selection with her short, medium, and long-term goals, she can achieve