Financial Markets questions and answers for Interview prep

Q1. Financial Markets Basics: Top 10 Questions & Answers

What are financial markets?
Markets where buyers and sellers trade financial instruments like equity, debt, and derivatives.

What is the primary role of financial markets?
Efficient allocation of capital + liquidity + price discovery + risk transfer.

Name the major types of financial markets.
Money market, Capital market, Forex market, Commodity market, Derivatives market.

Difference between primary & secondary markets?
Primary = New issue (IPO).
Secondary = Trading of existing securities (Stock exchanges).

What is the role of SEBI?
Regulates securities markets to protect investors in India.

What is an exchange? Examples?
A regulated marketplace to trade securities. NSE, BSE.

Who are market participants?
Retail investors, FIIs, DIIs, brokers, investment banks, custodians, CCPs.

How do financial markets contribute to economic growth?
Channel savings → productive investments → expansion of businesses & jobs.

What is liquidity?
Ease of converting an asset to cash without value loss.

What causes volatility in markets?
News, interest rates, inflation, macro events, earnings announcements.

Q2.Equity Market: Top 10 Questions & Answers

What are equity shares?
Ownership stake in a company with voting & profit-sharing rights.

What are indices? Examples.
Market performance indicators. Nifty50, Sensex.

What is market capitalization?
Total value = Share price × Total outstanding shares.

Large-cap vs Mid-cap vs Small-cap?
Based on market value: large = stable, small = high growth & risk.

What is P/E ratio?
Price ÷ Earnings; shows valuation vs profits.

What is an IPO?
Company issues shares to public for the first time to raise capital.

What are corporate actions?
Dividends, bonus shares, stock split, buyback, rights issue.

What is insider trading?
Trading using unpublished sensitive information — illegal.

Difference between trading account & Demat account?
Trading = buy/sell orders;
Demat = store electronic shares.

What affects share price movement?
Demand-supply, earnings, sentiment, macroeconomic trends.

Q3. Money Market: Top 10 Questions & Answers

What is the money market?
Short-term borrowing/lending (<1 year), highly liquid instruments.

Examples of money market instruments?
T-Bills, Commercial Paper, Certificates of Deposit, Call Money.

Who participates in the money market?
Banks, RBI, large corporates, mutual funds, NBFCs.

Why are money markets considered safe?
Instruments are short-term with government/bank backing.

Tenor of T-Bills in India?
91, 182, and 364 days.

What is call money?
Overnight interbank borrowing market.

Difference between CP and CD?
CP = unsecured corporate borrowing;
CD = bank term deposit certificate.

What is the role of RBI in money markets?
Liquidity control, monetary policy operations.

When do companies issue CP?
Short-term working capital needs.

Yield vs coupon in money markets?
Most money market securities are issued at discount (yield = gain).

Q4. Bond & Fixed Income: Top 10 Questions & Answers

What is a bond?
Debt instrument where issuer pays interest + principal at maturity.

What drives bond prices?
Interest rates, inflation, issuer credit quality.

Inverse relationship principle?
Bond prices fall when interest rates rise and vice versa.

What is yield?
Return investor earns on bond pricing vs coupon.

Issuer examples?
Government (G-Secs), PSUs, Corporates.

Secured vs unsecured bonds?
Secured = asset-backed; unsecured = no asset collateral.

Credit rating agencies in India?
CRISIL, ICRA, CARE.

What is Yield Curve?
Graph of yield vs maturity indicates economic outlook.

Callable vs Puttable bonds?
Issuer can redeem early vs holder can sell back early.

Why choose bonds over equity?
Stable income + lower risk + capital protection.

Q5. Derivatives Market: Top 10 Questions & Answers

What are derivatives?
Instruments whose value depends on an underlying asset.

Examples of derivatives?
Futures, Options, Forwards, Swaps.

What is hedging?
Reducing risk by taking opposite position in derivatives.

What is leverage in derivatives?
Small margin controls large contract size.

Calls vs Puts (options)?
Call = right to buy; Put = right to sell.

Mark-to-Market (MTM)?
Daily profit/loss settlement in futures.

What is Expiry Date?
Last trading day of derivative contract.

Lot Size meaning?
Minimum number of units per contract.

Spot vs Futures price?
Current price vs future delivery price.

Why do investors trade derivatives?
Speculation, hedging, arbitrage.

Q6. Short Example Scenarios: Top 10 Practical Questions

If interest rates rise, what happens to bond prices?
➡ They fall (inverse relationship).

You expect stock price to increase which option to buy?
➡ Call option.

Company has short-term cash shortage, which money market tool?
➡ Commercial Paper.

Investor wants risk-free returns pick?
➡ Government Treasury Bills.

A large FII sells ₹500 crore in equities market impact?
➡ Index likely declines due to selling pressure.

IPO oversubscribed 10×. what does it indicate?
➡ High demand, strong investor confidence.

Bank borrows overnight from another bank. which market?
➡ Call Money Market.

Bond rated downgraded from AAA to BBB impact on yield?
➡ Yield rises to compensate higher risk.

Trader places buy order but wrong price entered which validation error?
➡ Price validation error at trading system.

Equity market crashes but gold prices surge. Why?
➡ Flight to safety (risk-off sentiment).

All the best hope this helps!