

UNIVERSITY OF COLOMBO

FACULTY OF ARTS, DEPARTMENT OF ECONOMICS

Postgraduate Diploma in Economic Development (DED) – 2016

DED 507: Financial Institutions

Answer Any Four (04) Questions only

Time Allowed: 03 Hours Only

1. 1.1. How do you explain a financial system and its contribution to economic development?
(10 marks)
- 1.2. "In some countries financial intermediaries are prominent in providing finances for businesses." Critically examine the statement.
(10 marks)
2. 2.1. Outline the building blocks of a financial system? Explain your outline in detail.
(10 marks)
- 2.2. Why do you think that the financial regulation is an important area of concern? Explain your answer with examples.
(10 marks)
3. 3.1 What is information asymmetry? Why do you think information asymmetry hinders transaction efficiency in markets? Explain your answer with examples where necessary.
(10 marks)
- 3.2 Examine how financial intermediaries assist the society to overcome issues related with information asymmetry.
(10 marks)
4. 4.1 Economists define interest rate as yield to maturity. Why do you think that this is the best method to understand the interest rate? Explain your answer with examples.
(10 marks)
- 4.2 Using money and bond markets explain how interest rate is determined in a competitive environment.
(10 marks)
5. 5.1 It is believed that interest rate and savings are positively correlated. Do you think that an increase in interest rate always increases savings? Critically explain your answer using examples wherever necessary.
(10 marks)
- 5.2 Critically examine how interest rate-savings relationship is explained in the theory of Financial Repression or Financial Liberalization.
(10 marks)

6. 6.1 Critically examine the multiple deposit creation process using the simple method. (10 marks)
- 6.2 Explain how the simple method of deposit creation is different from the expanded method. (10 marks)
7. 7.1 What is monetary policy? Explain the role of monetary policy in economic development. (10 marks)
- 7.2 Explain why the Open Market Operations (OMO) method has become the widely used technique of monetary policy. (10 marks)
8. Critically examine any two (02) of the following.
- 8.1 The relationship between demand for reserves and interbank interest rate (10 marks)
- 8.2 Supply of reserves is perfectly elastic at the discount rate (10 marks)
- 8.3 The relationship between bond price and interest rate (10 marks)
- 8.4 Higher interest rate promotes financial savings (10 marks)
