

UNIVERSITY OF COLOMBO  
FACULTY OF ARTS  
SECOND YEAR EXAMINATION IN ARTS (ECONOMICS) 2016/2017  
END OF THE SECOND SEMESTER  
ECN: 2214 PRINCIPLES AND PRACTICES OF BANKING  
TIME ALLOWED: TWO (02) HOURS  
Answer four (04) questions only

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**Question No 01**

- (a) Explain the main functions of a financial system. Critically examine the importance of these functions on economic management. (09 Marks)
- (b) Explain different types of financial institutions you have observed in the Sri Lankan financial system. (06 Marks)

**Question No 02**

- (a) "The presence of financial intermediaries is the key to reduce market imperfections". Critically explain the statement. (08 Marks)
- (b) Financial intermediaries perform different types of financial transformations. Explain four main types of financial transformations you have studied. (07 Marks)

**Question No 03**

- (a) "Without financial intermediaries, a lower transaction cost may not be feasible". Explain the statement. (08 Marks)
- (b) How do financial institutions reduce transaction costs? (07 Marks)

**Question No 04**

- (a) Briefly discuss the main business functions of commercial banks. (05 Marks)
- (b) "Increase in reserves in the banking system leads to more deposit creation". Critically examine the statement taking your own example. (10 Marks)

**Question No 05**

- (a) Explain the different types of non-bank services offered by the commercial banks to increase profitability and their customer base in the last few decades. (07 Marks)
- (b) In Sri Lanka, bank loans are the most prominent source of external funds of business institutions. Do you agree? Explain your answer. (08 Marks)

**Question No 06**

- (a) How do you define a Cheque? (03 Marks)
- (b) Describe the difference between opened and crossed Cheques. (06 Marks)
- (c) What are the advantages of carrying out transactions through cheque payment? (09 Marks)

**Question No 07**

Briefly describe any three (3) of the following.

- (a) Adverse selection problem in financial transactions
- (b) Deposit Taking Institutions
- (c) The Basel Committee on Banking Supervision (BCBS)
- (d) Non Resident Foreign Currency (NRFC) Accounts
- (e) Bearer cheque
- (f) Digital Banking

(05 marks for each)