

UNIVERSITY OF COLOMBO - SRI LANKA

THIRD YEAR EXAMINATION IN ARTS (STUDY STREAMS)- 2018/19

END OF THE SECOND SEMESTER

ECN 2213: INTRODUCTION TO FINANCE

TIME ALLOWED: TWO (02) HOURS ONLY

ANSWER ANY FOUR (04) QUESTIONS ONLY

Question No 01

- (a) Briefly explain different types of financial markets you have studied. (05 Marks)
- (b) Channeling of funds from savers to spenders is considered an economic function. Explain why? (05 Marks)
- (c) "A healthy financial system facilitates economies to achieve their development goals." Explain the statement. (05 Marks)

Question No 02

- (a) Distinguish between the real and the nominal interest rates. For policy making, which interest rate is useful? Explain your answer. (05 Marks)
- (b) "When the real interest rate is low more incentive to borrow and less incentive to lend". Do you agree with the statement? Explain your answer. (05 Marks)
- (c) Discuss the impact of interest rate on major macro-economic variables, taking Sri Lanka's experience into account. (05 Marks)

Question No 03

- (a) Finance team in a business, two fundamental types of financial decisions are taken. Explain them briefly. (07 Marks)
- (b) What do you understand by finance? Briefly discuss different types of financing you have studied. (08 Marks)

Question No 04

- (a) Distinguish between different financial markets you have studied. (05 Marks)
- (b) Explain the major role of the financial manager in a business firm. (05 Marks)
- (c) What determines the demand for finance? Explain your answer giving examples from Lankan financial system. (05 Marks)

Question No 05

- (a) Briefly discuss the factors influence market interest rate using your own examples. (05 Marks)
- (b) "Time and uncertainty are two key elements in Finance." Explain the statement. (05 Marks)
- (c) Explain how the expected return of financial assets are determined in high risk and inflationary situations. (05 Marks)

Question No 06

- (a) If the current interest rate is 8% per annum, to have Rs. 10,000/- bank balance in your saving account in 5 years, explain how much you should deposit today. Show your workings. (05 Marks)
- (b) A term deposit of Rs. 800,000/- deposited 5 years ago is matured today. Assuming 12% average effective interest rate per annum, calculate the value that investor has earned at the end of the period. (05 Marks)
- (c) Briefly discuss the 'Time Value of Money'? (05 Marks)

Question No 07

Briefly describe **any three (03)** of the following.

- (a) Yield curve
- (b) Cost of financing
- (c) Risk premium
- (d) Net Present Value
- (e) Personal Finance Strategies
- (f) Yield to maturity
- (g) Features of Treasury Bonds

(05 marks for each)

*****End of the paper*****