

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF ARTS

THIRD YEAR EXAMINATION IN ARTS (ECONOMICS) – 2021/2022

ECN 4168: Practice of Banking

Time Allowed: Two (02) Hours

Answer 03 questions in total. Question one (1) is mandatory.
Please write answers legibly and to the point.

Question 1 (this question is compulsory)

(30 marks)

- (a) Using examples from the Sri Lankan banking system, distinguish between primary and secondary functions of a bank.
- (b) What are the other services offered by the banks other than the primary and secondary functions explained in (a) above? Explain your answer with examples.
- (c) Explain the difference between bank loans and bank advances with examples. Why it is necessary to have both types?
- (d) Explain the different methods of short term financial assistance offered by the banks to their customers with examples.
- (e) Banks perform different types of relationships with their customers. Explain such relationships you have studied giving examples for each type.
- (f) Know Your Customer (KYC) is a key aspect of trust building between bank and customer. Explain the key benefits of KYC with examples.
- (g) Can KYC discourage the public utilizing banking services in the long run? Do you agree with the statement? Explain your answer giving examples where necessary.
- (h) Can KYC assist banks to avoid adverse selection problem completely? Explain your answer.
- (i) Distinguish between the cash book and pass book.
- (j) What is E banking? What are the benefits of E banking? Why E banking growth is slower in Sri Lanka?

Question 2

(15 marks)

- (a) Can commercial banks contribute positively to economic development of a country? Explain your answer taking examples from Sri Lanka.
- (b) "The financial structure is strongly and positively correlated with economic development." Do you agree with the statement? Explain your answer with examples.
- (c) Does Sri Lanka have a strong banking structure to support faster economic growth? Explain your answer.
- (d) Banking structures are fast changing to face the new realities in life in all over the world. Explain a few such changes in the banking systems with examples taken from Sri Lanka.
- (e) Distinguish between corporate and retail banking. For a country like Sri Lanka, do you think retail banking is more useful? Explain your answer with appropriate examples.

Question 3

(15 marks)

- (a) Explain the major types of bank accounts available in any banking system. Are they available in the Sri Lankan banking system too? Explain your answer.
- (b) A bank mandate facilitates better business practices between banks and customers. Do you agree with statement? Explain your answer paying attention to the contents of a bank mandate.
- (c) Explain the steps one has to go through to open a bank account in a Sri Lankan commercial bank.
- (d) Distinguish between the operational aspects of a credit and debit cards giving examples where necessary.
- (e) Who are the key parties involved in a transaction based on debit/credit card?

Question 4

(15 marks)

- (a) Explain the key features and four (4) parts of a cheque. Explain the different types of cheques you have studied?
- (b) Explain the reasons for cheques to be dishonored by banks? What are general and special crossing of cheques.
- (c) What is Real Time Gross Settlement System (RTGS)? Explain how RTGS works. Who are the participants of RTGS in Sri Lanka?

- (d) “Cheque Imaging and Truncation System (CITS) and Sri Lanka Inter Bank Payment System (SLIPS) has made financial transactions in Sri Lanka faster, easier and secure.” Do you agree with the statement? Explain your answer with examples where necessary.
- (e) Explain the payment process in detail when debit/credit cards are used to make a payment.

Question 5

(15 marks)

- (a) Explain the factors that determine credit card interest rate. In spite of higher interest on credit card based transactions, the use of credit cards are rapidly increasing in Sri Lanka. How would you explain the situation?
- (b) The services provided by merchant banks assist business enterprises to take the most advantageous financial decisions and thus a healthy business growth. Do you agree with the statement? Explain your answer with examples where necessary.
- (c) “Proper treasury management makes banks less risk and more profitable.” Do you agree with the statement? Explain your answer with examples.

Question 6

(15 marks)

- (a) Sri Lankan policy makers are trying to make Sri Lanka a regional financial centre attached to the global banking system. Do you think globalization of banking is good for countries like Sri Lanka to achieve faster economic growth? Explain your answer providing appropriate examples.
- (b) What is financial inclusion? Why financial inclusion is considered significant for economic development? Explain the role of Fintech in financial inclusion taking examples from Sri Lanka in the last five years.
- (c) Financial repression retards economic growth while financial liberalization promotes economic growth. Critically examine the statement taking Sri Lanka as a case.

-----End of Examination-----

