

**UNIVERSITY OF COLOMBO, SRI LANKA**

**FACULTY OF ARTS**

**Fourth Year Examination in Arts (Economics) SEMESTER I – 2020/2021**

**ECN 4169: Economics of Banking and Financial Markets**

Duration: Two (02 hours), Answer any Three (03) questions.

Answers should be written legibly and to the point.

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1. (i) “The indirect financing method is more appropriate for a country like Sri Lanka.” Critically examine the statement with examples where necessary. (10 marks)  
(ii) “Financial institutions help markets to function efficiently because they can address issues associated with Information asymmetry very well.” Do you agree with the statement? Critically explain your answer giving examples from Sri Lanka. (10 marks)
2. (i) Explain the way in which economists interpret interest rate using different types of credit market instruments you have studied. (12 marks)  
(ii) “For decision making what is important is the real interest rate.” Explain the statement using examples where necessary. Are the rate of return and the rate of interest same? Explain your answer using (8 marks)
3. (i) What is the term structure of interest rate? Explain why there are differences in interest rates in the same class of financial assets? Explain your answer in detail with examples. (10 marks)  
(ii) “The liquidity premium theory is a comprehensive theory that is capable to understand and predict the interest rate behaviour accurately?.” Critically examine the statement with examples. (10 marks)
4. (i) “A resilient financial structure is critical for a sustained and higher economics growth.” Critically explain the statement taking the Sri Lanka banking system into account. (10 marks)  
(ii) “Availability of all relevant information and less transaction cost are key to market efficiency.” Do you agree with the statement? Critically explain your answer. (10 Marks)
5. (i) “The objectives of the central bank of Sri Lanka have been narrowed down to sharp focus monetary management since 2000. Do you think that this change has helped the CBSL to manage monetary condition conditions in Sri Lanka better?” Explain your answer with examples. (10 marks)  
(ii) Critically examine the main features of the monetary policy of CBSL in the last three years. Have the present monetary policy stunts been able to stabilise the economy? Explain your answer. (10 marks)

6. (i) Compare the workings of simple and extended money multipliers approaches. Explain the level of efficiency of both approaches as devices of monetary management. (10 marks)
- (ii) Critically examine the relationship among the parameters of expanded money multiplier, monetary base and money supply giving example where necessary. (10 marks)
7. (i) Why monetary policy is important for an economy? Explain the nature of the relationship between quantity of money and economic growth taking examples from Sri Lanka in the last two years. (6 marks)
- (ii) Describe major tools of monetary policy you have studied? Explain how each of them work in the economy using Sri Lanka's experience in the past two years. (10 marks)
- (iii) Though the required reserve ratio is not considered an efficient tool of monetary management, central bank of Sri Lanka used it frequently in the last two years. Has it been successful? Explain your answer. (6 Marks)
8. (i) What are the merits of a well-developed money market for an economy? (6 marks)
- (ii) Critically examine how functions of money market help better manage monetary condition of a country taking examples from Sri Lanka. (8 marks)
- (iii) Explain the major money markets instrument available in Sri Lanka's money market. (6 marks)
9. (i) What were the salient factors that necessitate the need for 'Capital Adequacy Requirements' in global banking industry? (4 Marks)
- (ii) Explain the way the definition of 'risk' changed from BASEL I to BASEL II. What are the real-world factors that influenced such complex mechanism of measuring risk? (8 Marks)
- (iii) Do you think the 'risk weighted' approach implemented in BASEL I is just? Explain your answer. (8 Marks)

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