



UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE
Postgraduate and Mid-career Development Unit

Master of Business Administration in Finance (Weekend Programme)

Trimester VI Examination-February, 2025

MBAFI 5218 – Seminar: Contemporary Issues in Finance

Three (03) Hours

Instructions to Candidates:

- Answer **any five (05)** questions
 - This paper consists of six (06) question printed on four (04) pages
 - This is an open book examination
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01.

- i. What are the primary challenges facing the financial sector in the current global economic environment? Analyze the impact of issues such as regulatory changes, technological disruptions, cyber security risks, and the evolving nature of consumer behavior. How can financial institutions adapt to these challenges to maintain stability and ensure sustainable growth?

(10 marks)

- ii. Improving financial literacy is a critical issue in today's financial landscape. Discuss the role of financial education in enhancing individual financial decision-making and addressing broader economic challenges. What are the key obstacles to improving financial literacy, and what strategies or policies can be implemented to overcome these challenges, particularly in underserved or vulnerable sectors of population?

(10 marks)

(Total 20 marks)

02.

According to the Report on 2023 banking turmoil by Basel Committee on Bank Supervision, the banking turmoil that started in March 2023 is the most significant system-wide banking stress since the Great Financial Crisis (GFC) in terms of scale and scope. The bank failures, while having largely distinct causes, triggered a broader crisis of confidence in the resilience of banks, banking systems and financial markets across multiple jurisdictions.

- i. While the distress of each of these banks reflected idiosyncratic factors, recurring themes can be grouped into three broad categories. Explain the factors categorized under the theme of Bank Risk Management Practices and Governance Arrangements by the Basel Committee giving emphasis on the local banking practices.

(10 marks)

- ii. Although many factors contributed to the collapse of the aforementioned banks, a key cause was the rapid increase of basic interest rates by the Federal Reserve and the European Central Bank (ECB) after a long period of extremely low interest rates, mainly during the pandemic (Siegel 2023; Dimos 2023).

Critically evaluate the impact of the size of interest rate volatility leading to 2023 banking turmoil.

(10 marks)

(Total 20 marks)

03.

Corporate concentration is growing, with those at the very top gobbling up more and more rivals. Just in the world of Big Tech – one of the richest sectors of the economy – the five biggest firms have bought out over 1,000 companies over two decades.

The problem is particularly acute in the US, where recent research finds that the top 1% of corporations account for a truly astonishing 81% of business sales and 97% of business assets.

- i. The last time the market concentration and the influence of the largest stocks were this high was during the Dot-Com Bubble, another period of technological innovation and exuberance.

Compare the similarities between recent success of Magnificent Seven with Dot-Com Bubble and identify few financial ratios which are performing different to Dot-Com Bubble now?

(10 marks)

- ii. Finally, the term economic moat may be considered closely linked to the concept of market power (Klement, 2021) that is the ability of a firm to profitably maintain prices above a competition level potentially harming consumers (OECD, 2022).

Identify the key sources that provide economic moats to firms and explain the monopolistic market conditions created in the US Pharma and vaccine producing companies, global search engine market and Big 3 index funds in the global share market.

(10 marks)

(Total 20 marks)

04.

A new Debt Service Watch database prepared for the “Resolving the Worst ever Debt Crisis: Time for an Ambitious Initiative?” report (June 2024) shows that when measured by the burden of debt service on budgets, this is the worst global debt crisis ever. In 2024, debt service is absorbing 41.5% of budget revenues, 41.6% of spending, and 8.4% of GDP on average across 144 developing countries; figures much higher than those before relief was provided to Latin America in the 1980s, and to HIPC (Heavily Indebted Poor Countries) from 1996.

- i. Among nine drivers of the debt risk of Sri Lanka identified by Gregory Smith in his article “The evolution of Sri Lanka’s sovereign debt crisis: lessons for better borrowing” (September 2024).

Elaborate on following drivers emphasizing on the Sri Lanka sovereign debt default:

- access to international capital markets
- aiming at the wrong debt target and
- not enough foreign exchange earnings

(10 marks)

- ii. “Rising government bond yields, despite policy rate cuts by major central banks, highlight fiscal challenges facing many sovereigns in 2025, among other factors, Fitch Ratings says.” (Fitch Ratings-London-13 January 2025).

Elaborate on the impact of the interest rate on the sovereign debt sustainability of Sri Lanka.

(10 marks)

(Total 20 marks)

05.

- i. "Corporate governance encompasses the systems, processes, and principles that guide how a business is directed and managed. While various models of corporate governance have evolved globally, they all share the common objective of ensuring effective, ethical, and responsible management in the best interest of stakeholders."

Based on the above statement, discuss how different corporate governance models have evolved over time, and explore their general purpose in guiding business operations?

(10 marks)

- ii. How does Sri Lanka's current legal framework and corporate governance system affect the financial stability of finance companies, leading to their recent failures? What changes are needed to improve this situation? Explain your views.

(10 marks)

(Total 20 marks)

06

- i. How does prospect theory by Kahneman & Tversky (1979) explain the difference between how individuals perceive gains versus losses?
(05 marks)
- ii. When individual investors hear about a colleague's stock success at the Colombo Stock Exchange, they often rush to buy shares without careful thought. What behavioral biases might cause this quick decision-making? Discuss.
(08 marks)
- iii. What is sustainable finance, and how does it differ from traditional finance in terms of investment decisions? Explain.
(07 marks)

(Total 20 marks)
