

UNIVERSITY OF RUHUNA

2018/2019 Academic Year

B. A. (Special) Degree - 2000 Level

2<sup>nd</sup> Semester Examination – 2020 March

ECN 22653 – Finance Theory

Answer any four (04) questions.

Time: 03 Hours

1. i. Describe elaborately the nature and scope of finance theory with emphasizing the micro and macroeconomic aspect of the theory. (08 marks)
- ii. Examine the importance of finance theory in decision making process of an economy. (07 marks)
2. i. Discuss the four main difficulties faced by a barter economy. (05 marks)
- ii. Explain the various theoretical approaches to the definition of money. (10 marks)
3. i. What do you understand by the circular flow of money? (03 marks)
- ii. Discuss briefly the circular flow of money in an open economy with the help of suitable diagram. (09 marks)
- iii. Explain briefly the significance of circular flow of money in an economy. (03 marks)
4. i. List out the main assumptions of the Say's Law of Market. (04 marks)
- ii. "Classical economists view that money facilitates only to transaction of goods and services, but no influence the quantity of goods and services in anyway." Emphasizing the classical theory of money, discuss your opinion on the above statement using appropriate diagrams. (11 marks)
5. i. Explain the role of money using transmission mechanism in the Keynesian theory (08 marks)
- ii. Discuss the three motives to demand for money in the liquidity preference theory put forwarded by Keynes. (07 marks)

- 6.
- i. Define the concepts of Monetary Policy and Fiscal Policy. (03 marks)
  - ii. Using the IS-LM model, explain and illustrate how policy makers can use monetary and fiscal policies to change the rate of interest and income of an economy. (04 marks)
  - iii. Using IS-LM model, graphically explain the relative effectiveness of monetary policy and fiscal policy on the following situations.
    - (a) A complete effectiveness of the monetary policy
    - (b) Relatively less effectiveness of monetary policy
    - (c) A complete effectiveness of the fiscal policy
    - (d) Relatively less effectiveness of fiscal policy(08 marks)

- 7.
- i. Briefly explain the loanable funds theory of interest rate determination. (08 marks)
  - ii. How the rate of interest is determined in modern theory? Build your answer with appropriate diagram. (07 marks)

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