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**UNIVERSITY OF RUHUNA**

**2018/2019 Academic Year**

**B. A. (Special) Degree - 2000 Level**

**1<sup>st</sup> Semester Examination – 2019 October**

**ECN 21653 – Money Banking and Finance**

**Answer any four (4) Questions.**

**Time: 03 Hours**

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1. (i) Explain briefly the main elements of the financial system in Sri Lanka. (4 marks)
- (ii) What are the major economic functions of financial markets? (4 marks)
- (iii) Distinguish between “Money market and ‘capital market’ ” How are they interrelated? (4 marks)
- (iv) How do you classify the financial market on the basis of its’ various dimensions? (3 marks)
2. (i) Explain the major economic functions and the key properties of financial assets. (4 marks)
- (ii) What do you mean by the term unsystematic risk? Give some examples to the causes of unsystematic risk. (5 marks)
- (iii) Differentiate between the financial assets and the real assets. (4 marks)
- (iv) What is meant by the cash flow of a financial assets? (2 marks)
3. (i) Describe the terms “liquidity risk” and “Default risk”. (4 marks)
- (ii) List the different objectives of the surplus units and deficit units with their lending and borrowing of funds. (3 marks)
- (iii) Why do financial intermediaries exist in an economic? (4 marks)
- (iv) Discuss the role and importance of financial intermediaries in lowering the interest rates respect of in an economy. Use diagram to illustrate your answer. (4 marks)

4. (i) Outline the various approaches to the definition of money. What is the basic differences between conventional and Chicago definition of money. (5 marks)
- (ii) What are determinants of money multiplier? How the money multiplier affected when the currency deposit ratio increases? (5 marks)
- (iii) Following table provides hypothetical financial data of Sri Lankan economy for the year 2018.

Items	Rs. Billion
1. Currency outstanding	250.00
2. Currency with commercial bank	50.00
3. commercial banks' deposits with the central bank	100.00
4. Government agencies deposits with the central bank	20.00
5. Narrow money supply ( $M_1$ )	360.00
6. Times and Savings deposits held by the public with commercial bank	1500.00
7. Deposits of resident category of offshore banking units	300.00
8. A part of foreign currency deposits with domestic banking units	150.00
9. Net foreign assets of the central bank	350.00

Compute the followings,

- (a) Value of Reserve money
- (b) Currency held by the public
- (c) Demand deposits held by the public with commercial bank
- (d) Consolidated broad money supply ( $M_{2b}$ )
- (e) Money Multiplier for  $M_2$  ( $mmM_2$ ) (5 marks)
5. (i) Illustrate graphically the effect of an easy monetary policy on the interest rate, investment, price level and income of an economy. (7 marks)
- (ii) What steps have been taken by the central bank in recent years to modify the monetary policy framework in Sri Lanka? (8 marks)

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6. (i) Specify the equation of exchange and explain its theoretical significant. (2 marks)

(ii) What are the motives for holding cash balances according to Keynes? (5 marks)

(iii) "The Speculative demand for money is a function of the current rate of interest". Examine above statement using appropriate diagram. (5 marks)

(iv) What is meant by the "Liquidity trap"? (3 marks)

7. Write explanatory notes on any **three (03)** of the following,

i. Real time gross settlement system (RTGS).

ii. Monetary equilibrium in Keynesian theory.

iii. Objectives of the central bank of Sri Lanka.

iv. Benefits of the stock market.

v. Asymmetric information in financial market. (15 marks)

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(5 marks)

investment,  
(7 marks)

monetary  
(8 marks)