



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages : 02
No. of Questions: 06
Total Marks :70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP
2025

Three Hours

FIN 31303 – Financial Markets and Institutions

Academic Year 2024/2025

Instructions

- ➔ Answer all questions.

Question 1

- (A) Explain the fundamental differences between direct and indirect financing.
(3 marks)
- (B) Financial system serves as the backbone of every economy, performing several critical functions to its smooth functioning and growth. Explain the core functions of the financial system.
(4 marks)
- (C) Discuss the need for regulation of financial institutions in maintaining a stable and trustworthy financial system, with reference to historical examples.
(5 marks)
(Total 12 marks)

Question 2

- (A) Identify the key determinants that influence the interest rate of an individual security.
(3 marks)
- (B) Identify the major economic agents who constitute the supply of loanable funds and outline their typical purposes for lending.
(4 marks)
- (C) “The liquidity premium theory suggests that the term structure of interest rates reflects investors' preferences for liquidity.” Discuss this statement.
(5 marks)
(Total 12 marks)

Question 3

- (A) Briefly explain the defining features of primary market that distinguish it from the secondary market. (3 marks)
- (B) Briefly describe the roles of three major participants in the primary market and how they interact to facilitate the issuance of new securities. (4 marks)
- (C) The money market facilitates the borrowing and lending of short-term funds through a variety of instruments. Identify five key financial instruments traded in the money market. For each, describe its key features and primary issuer. (5 marks)
- (Total 12 marks)**

Question 4

- (A) Compare T-bonds and corporate bonds in terms of risk, returns, and investor preference. (3 marks)
- (B) Discuss the various types of securities traded in international bond markets, explaining the key roles they play in global capital flows. (4 marks)
- (C) Briefly explain the following terms relating to mortgage markets.
- (i) Private Mortgage Insurance
 - (ii) Conventional mortgages
 - (iii) Balloon payment mortgage
 - (iv) Mortgage Refinancing
 - (v) Subprime Mortgages
- (5 marks)**
(Total 12 marks)

Question 5

- (A) Define commercial banks? Briefly explain the important functions of commercial banks in economic development of the country. (3 marks)
- (B) Differentiate between depository and non-depository financial institutions using suitable examples. (4 marks)
- (C) Discuss the role of financial intermediaries in reducing transaction costs and enabling small savers and borrowers to access the benefits of financial markets. (5 marks)
- (Total 12 marks)**

Question 6

Compare and contrast the following pair of terms.

- (A) Mutual funds and Hedge fund
- (B) General obligation bond and a Revenue bond (05 marks for each)
- (Total 10 marks)**
