

Answer all questions

Time: 03 Hours

Non-Programmable calculator permitted

01.

- i. Briefly explain the objectives and functions of the Central Bank of Sri Lanka.
(03 Marks)
- ii. Briefly explain the role of Licensed Commercial Banks in Sri Lanka and Licensed Specialized Banks in Sri Lanka
(04 Marks)
- iii. What is meant by “Merchant Banks”? Briefly explain the various services they provide.
(05 Marks)
- iv. Explain how the Insurance companies play the financial intermediary role in the financial market in Sri Lanka.
(05 Marks)
- v. What general principles should primary dealers follow when engaging with the customer?
(04 Marks)
- vi. Classify and explain the payment and settlement system of Sri Lanka.
(05 marks)
- vii. Explain how the Employees Provident Fund (EPF) and the Employees Trust Fund (ETF) contribute to the development of the financial market in Sri Lanka.
(04 marks)
- viii. What is the difference between Money Market and Capital Market?
(04 Marks)
- ix. Explain the instruments used in a developing money market and capital market with special reference to Sri Lanka
(03 Marks)
- x. What are the functions of Financial System?
(03 Marks)

(Total 40 Marks)

02. Distinguish between the following terms

- i. Bull Market and Bear Market
- ii. Standard and Poor's Sri Lanka 20 (S&P SL 20) Price Index and All Share Price Index
- iii. Share market and bond market
- iv. Internal Foreign Exchange Market and Off -Shore Banking Market
- v. Investment Bank and Stock Brokerage

(05 x 03 = 15 Marks)

03. Write short notes on the following:

- i. Lanka Settle system
- ii. Trading Floor
- iii. Underwriting
- iv. Colombo Stock Exchange (CSE)
- v. Initial Public offerings (IPOs)

(05 x 03 = 15 Marks)

04.

- i. Define the term of Risk and Return.

(02 Marks)

- ii. Assume that you purchased 200 shares at a price of Rs10 each. You receive Rs 1 in cash dividends after one year, and the share now trades at Rs 9.50. How can you evaluate the performance of the investment that you made a year ago? Find the rate of return on the investment.

(05 Marks)

- iii. The following data of return and probability of stock α .

R_i	P_i
0.1	0.8
0.15	1.0
0.25	1.10
0.30	1.3
0.20	1.5

- a. Calculate the Expected Return of the stock α .

(04 Marks)

- b. Calculate the Standard Deviation of the stock α .

(04 Marks)

(Total 15 Marks)

05. There are two assets and three states of the economy given below. (Twenty-five percent of the portfolio is invested in stock A, 75 percent in stock B).

State of Economy	Probability of State	Return if State Occurs	
		Stock α	Stock β
Recession	5%	17%	6%
Normal	55%	8%	10%
Boom	40%	-3%	19%

- a. Calculate the Expected Return of the portfolio?

(08 Marks)

- b. Calculate the Standard Deviation of the portfolio?

(07 Marks)

(Total 15 Marks)