

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT
THIRD YEAR FIRST SEMESTER EXAMINATION IN
BACHELOR OF COMMERCE (HONOURS) IN BUSINESS ECONOMICS - 2021/2022
(FEBRUARY/MARCH, 2024)
(PROPER)

ECN 3052 -- BANKING & FINANCE

Answer all questions.
If relevant, please show graphical representation.

Time: Two hours.
No. of Pages: 02.

Q1.

- i. What is meant by 'organised' money market? (04 Marks)
 - ii. List two ways in which banks differ from other financial institutions. (04 Marks)
 - iii. Briefly explain the factors that determine the level of cash reserves that the bank must maintain. (6 Marks)
 - iv. How a change in money supply affects interest change? (6 Marks)
 - v. The rate at which the central bank lends money to commercial banks in shortage of funds? Why? (05 Marks)
- (Total 25 Marks)

Q2.

- i. What is the most important feature of a 'negotiable instrument'? (04 Marks)
 - ii. A cheque dated 20-12-2023 was paid on 10-10-2023. The account holder gives stop payment instruction of the above cheque on 15-11-2023. As a banker,
 - a. will you refuse or accept the instruction of the above cheque? Why? (05 Marks)
 - b. what will you do if a crossed cheque is presented for payment? (03 Marks)
 - iii. How do you calculate total demand for money? (05 Marks)
 - iv. Briefly discuss as to which steps should be taken by the central bank if there is excessive rise in the foreign exchange rate. (08 Marks)
- (Total 25 Marks)

Q3.

- i. How can monetary policy control inflation? (06 Marks)
- ii. How does rapid inflation affect the performance of the functions of money? Briefly clarify. (06 Marks)
- iii. Identify the causal factors of inflation. (04 Marks)

- iv. What is the effect of devaluation of a currency? (05 Marks)
- v. Differentiate between money and near money. (04 Marks)

(Total 25 Marks)

Q4.

- i.
 - a. Define 'market risk's of a bank. (04 Marks)
 - b. Why does a bank lend ? (04 Marks)

- ii.
 - a. What is the significance of financial system? (04 Marks)
 - b. What is meant by 'financial instruments'? (04 Marks)

- iii.
 - a. What are the characteristics of capital market? (05 Marks)
 - b. A bond with a face value of Rs.1000/- has a coupon rate of 9%, and 7 years remaining until maturity. Find the value of an annual coupon bond if the interest rate is 6% compounded annually. (04 Marks)

(Total 25 Marks)