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29 APR 2015

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**THIRD YEAR – FIRST SEMESTER EXAMINATION IN**  
**BACHELOR OF BUSINESS ADMINISTRATION - 2012/2013**  
**(SPECIALIZATION IN HUMAN RESOURCES MANAGEMENT/MARKETING MANAGEMENT)**  
**(FEBRUARY/MARCH, 2015)**  
**(PROPER/REPEAT/RE-REPEAT)**  
**MOC – 3052 BANKING AND FINANCE**

*Answer all questions*

*Time: Two hours*

**Q1. Read the Case Study and answer the questions given below.**

***Liquidity Crisis in Sri Lanka***

The Central Bank of Sri Lanka (CBSL) strongly warned the people through its notice of 21<sup>st</sup> January, 2012 about the investments given by unauthorised institutions/parties and about the honest financial dealings. The notice informed that the honest financial institutions that come under the CBSL's management are allowed to accept deposits. Further, the notice clearly instructed that the risk the people face in investing their hard-earned money in unauthorised institutions/parties. Then, the CBSL named a few such unauthorised institutions/parties. As a result of the CBSL public notices, people started withdrawing their money from unauthorised institutions/parties. A few such institutions failed due to liquidity crisis. This caused a fall of public confidence in some financial institutions in Sri Lanka especially the smaller finance companies, resulting in an increase in deposit withdrawals since people always look at liquidity and financial institutions need to provide it, if not people will not have any trust with them.

Lankan Brothers is one of the leading business groups in Sri Lanka owns a failed unauthorised financial institution, a few of the troubled finance companies, and a leading commercial bank. The failed unauthorised financial institution and trouble of the finance companies led to a fall of public confidence in this business group as well as in the Commercial Bank. People started withdrawing deposits from this bank that created a lot of problems for the bank. The CBSL responded to the situation of this Commercial Bank with regard to deposit withdrawals and its following liquidity problems. The difficulties of this bank posed a threat to the stability of the financial system. However, the state banks could attract more deposits during the times of crisis as the government banks have a government guarantee.

- a) Identify the root cause of the problem. Why does it arise? Discuss. (04 Marks)
  - b) How could state banks attract more deposits due to the fall of the unautonomous financial institutions in 2012? Examine. (08 Marks)
  - c) What option/s would you consider to minimise liquidity risk in the future? Describe. (07 Marks)
  - d) Suppose that you are a banker, what actions would you take to stabilise the situation? Explain. (09 Marks)
- (Total 28 Marks)**

**Q2.**

- a) Define Central Bank. (07 Marks)
  - b) What do you understand by the term of Banker's Bank? Discuss. (08 Marks)
  - c) What are selective credit control methods? Explain the working of any two quantitative methods of credit control in Sri Lanka. (09 Marks)
- (Total 24 Marks)**

**Q3.**

- a) What are the benefits of acquisition? (03 Marks)
- b) JK Construction Company (Pvt.) Ltd. is analysing the possible acquisition of Lanka Suppliers & Hardware Company (Pvt.) Ltd. These two companies have no debt. The estimates of JK Construction Company (Pvt.) Ltd. show that the purchase will increase its annual after-tax cash flow by Rs. 600,000/- indefinitely. The current market value of Lanka Suppliers & Hardware Company (Pvt.) Ltd. is Rs. 20 million. The current market value of JK Construction Company (Pvt.) Ltd. is Rs. 35 million. The appropriate discount rate for the incremental cash flows is 8 percent. You are required to calculate the followings:
  - i) What is the synergy from the merger?
  - ii) What is the value of Lanka Suppliers & Hardware to JK Construction Company? JK Construction is trying to decide whether it should offer 25 percent of its stock or Rs. 15 million in cash to Lanka Suppliers & Hardware.
  - iii) What is the cost to JK Construction of each alternative?
  - iv) What is the NPV to JK Construction of each alternative?
  - v) Which alternative should JK Construction use?

**(05 × 03 = 15 Marks)**

c) "Merging of equals is not successful". Explain.

(06 Marks)

(Total 24 Marks)

Q4.

a) What is 'float'? Give examples.

(06 Marks)

b) How is a company affected by collection float? Analyse.

(09 Marks)

c) Hubert & Sons (Pvt.) Ltd.'s weekly average cash balances are as follows:

Week 1	Rs. 24,000
Week 2	Rs. 34,000
Week 3	Rs. 10,000
Week 4	Rs. 15,000

If the annual interest rate is 12 percent, what return can be earned on the average cash balances?

(09 Marks)

Total 24 Marks