EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
THIRD YEAR FIRST SEMESTER EXAMINATION IN
BACHELOR OF BUSINESS ADMINSTRATION/
SPECIALISATION IN HUMAN RESOURCES MANAGEMENT/
MARKETING MANAGEMENT/BUSINESS ECONOMICS- 2017/2018
PROPER/REPEAT [JULY, 2019]

MOC 3052/ECN 3082 – BANKING AND FINANCE

Answer all questions ***Time: Two hours***

No. of Pages: Four

Q1.

a) What do you mean by "**Cash Credit**"? **(05 Marks)**

b) "*.....The basic problem of the Sri Lankan Banking Sector is '**Insufficient Diversification**'" (Addressed by Mr. Dhammika Perera, CEO, Sampath Bank on 15th of April, 2019.* As a banker, briefly explain how will you reduce overall risk through diversification? **(06 Marks)**

c) Define "**Floating Reserve**". **(03 Marks)**

i. A has 30% of his money in Asset X, which has $\beta_X = 1.4$ and 70% of his money in Asset Y, which has $\beta_Y = 0.8$. What is his portfolio Beta? **(03 Marks)**

ii. Does Beta measure stock's systematic risk or unsystematic risk of the portfolio? Briefly comment. **(03 Marks)**

iii. Will the stock be underpriced or overpriced when A's asset has a beta of 1.2 and an expected return of 10%, if the expected return on the market portfolio is 13% and the risk-free rate is 5%? Why?

(05 Marks)

(Total 25 Marks)

Q2.

a) There is the **only one difference** between a 'promissory note' and a 'bill of exchange'. What is that difference? Briefly explain. **(06 Marks)**

b) How do primary deposits determine '**Money Creation**' by commercial bank? Give example. **(08 Marks)**

i. Suppose Mr. Nimal deposits Rs.8,965/- in a bank ABC @ 4.5%.

a. How much the bank ABC will keep as reserve?

(02 Marks)

b. How much the bank ABC will use for loan?

(02 Marks)

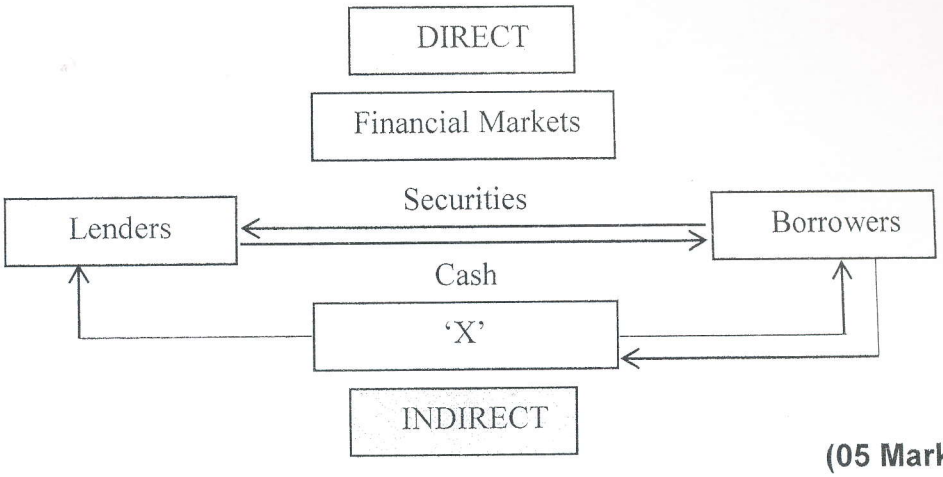
c) What is the '**Basic Rule**' applying to the bills of exchange? Why cannot a drawee claim his sum without this 'basic rule'? Discuss. **(07 Marks)**

(Total 25 Marks)

Q3.

a) Ms. Jasmine purchased a two-year bond of face value Rs.1,000/- issued at a discount for Rs. 797.19 now. She will receive Rs. 1,000/- two years later. What do you call this type of bond? Why? **(05 Marks)**

b) The following figure in which there is a '**Key Term**' denoted by '**X**' that includes the financial system. Identify the key term. What is the speciality of that key term? Give reasons for your answer.



(05 Marks)

c) Assume that Mrs. Jennet pays her loan payment of Rs. 10,000/- at 9% per year to the bank on 01st of every month for 15 years of her loan until her outstanding amount has been completely repaid.

i. What is the '**name**' that indicates the amount of money to be paid by Mrs. Jennet every month to the bank for clearing her outstanding loan? Explain. **(10 Marks)**

ii. Calculate the both interest and capital of the loan to be paid by Mrs. Jennet every month. **(05 Marks)**

(Total 25 Marks)

Q4.

a) "Central Bank has a '**monopoly**' in issuing currency". Do you agree with this statement? Clarify. **(08 Marks)**

b)

i. Why does an '**order cheque**' require endorsement? Examine.

(04 Marks)

ii. How does an account holder '**draw a cheque**'? Discuss.

(04 Marks)

c) What is the importance of '**Keynes Liquidity Preference Theory**'? Briefly comment. **(09 Marks)**

(Total 25 Marks)

Formula Sheet

$$E(R_{Asset}) = \frac{\sum_{i=1}^{n}(R_i)}{n} = \frac{R_1 + R_2 + \ldots + R_n}{n}$$

$$PVA = C(PVIFAR, t)$$

$$RR = Value\ of \frac{Collateral}{Value} of\ the\ Loan$$

$$LGD = 1 - Recovery\ Rate\ (RR)$$

$$EL = PD \times LGD \times EAD$$

$$PV = C\left[\frac{1}{r} - \frac{1}{r(1+r)^T}\right] + \frac{F}{(1+r)^T}$$

$$P_0 = \frac{Div_1}{1+r} + \frac{Div_2}{(1+r)^2} + \frac{P_2}{(1+r)^2}$$

$$P_0 = \frac{Div_1}{1+r} + \frac{Div_2}{(1+r)^2} + \frac{Div_3}{(1+r)^3} + \frac{Div_4}{(1+r)^4} + \cdots$$

$$PV = \frac{F}{(1+r)^T}$$

$$FV = C_0 \times (1+R)^t$$

$$P_0 = \frac{Div}{(1+r)^1} + \frac{Div(1+g)}{(1+r)^2} + \frac{Div(1+g)^2}{(1+r)^3} + \cdots$$

$$= \frac{Div}{r-g}$$

$$P_0 = \frac{Div_1}{1+r} + \frac{Div_2}{(1+r)^2} + \frac{Div_3}{(1+r)^3} + \frac{Div_4}{(1+r)^4} + \cdots$$

$$RP = w_1R_1 + w_2R_2$$

$$E(R_i) = R_f + \beta_i(E(R_m) - R_f)$$