

THE OPEN UNIVERSITY OF SRI LANKA
 DEPARTMENT OF SOCIAL STUDIES
 BA DEGREE IN SOCIAL SCIENCES – 2018/2019
 FINAL EXAMINATION – LEVEL 5 (SEMESTER II)
 DSU5338 – BANKING AND FINANCIAL SYSTEMS



DURATION: THREE HOURS (3 HOURS)

Date: 17th August 2019

Time: 1.30 a.m – 04.30 p.m

Instructions:

- Answer only (05) five questions.
- Each question carries equal marks

1.
 - a) Discuss how fund transaction mechanism plays a role in a modern economy. (12 Marks)
 - b) Explain how financial innovation becomes an essential component in a competitive environment. (8 Marks)
2.
 - a) Distinguish between short term and medium-long term instruments. (12 marks)
 - b) Examine the repercussion of the recent political instability on financial institutions. (08 Marks)
3. Assume you are an employee of a finance company and you have been asked to advice on the possible sources of raising funds to a large company which seeks funds to finance a new project. How would you perform this task? (20 Marks)
4.
 - a) Explain the core objectives of the central bank of sri lanka as envisaged in the Monetary Law Act in 2002. (10 Marks)
 - b) Explain the key monetary policy measures taken by the central bank of Sri Lanka in the process of ensuring economic stability. (10 Marks)
5.
 - a) Explain the two (02) types of insurance which reduce the loss of uncertain incidents. (10 Marks)
 - b) Briefly explain the role played by licensed finance companies in the financial market. (10 Marks)

- 6.
- a) Why capital adequacy is very important for every bank? Explain with reference to risks involved in the banking sector. (10 Marks)
 - b) Explain at least two (02) agency function and two (02) utility function of a bank. (10 Marks)
- 7.
- a) There are many factors causing the changes in exchange rate. Explain the important determinants of exchange rate. (12 Marks)
 - b) Briefly explain the key reasons for the exchange rate volatility in Sri Lanka in recent times. (8 Marks)
8. Discuss the advantages and disadvantages of using high tech financial services in an economy. Provide examples. (20 Marks)
9. Write short notes on any **four (04)** of the following (Each 5 Marks)
- a) Monetary policy
 - b) Foreign exchange market contracts
 - c) Credit rating and credit guarantee
 - d) Foreign currency denominated treasury bonds
 - e) Primary and Secondary market
 - f) Equilibrium exchange rate

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