

Issued On:		Past Paper Questions [PPQs]	5 [93 - 97]
Deadline:		Model Questions [MQs]	15 [26 – 40]
Marks : Time	<b>1 mark = 1 ½ Mnt</b>	Units - Essentials Covered	<b>Unit 7</b>


### Money, Banking & Monetary Policy Application [Unit 7]:

[01] 2009 A/Ls (ECON – II - II): Q1 (I)

(I) **Outline** the main **functions of money** (04 marks)

[02] 2011 A/Ls (ECON – II): Q6

(I) What is meant by a ‘**double coincidence of wants**’? (03 marks)

 (II) Explain why credit cards are not money (03 marks)

[03] 2013 A/Ls (ECON – II): Q6

(I) In what ways does **money** facilitate **specialization** and the **division of labour**? (04 marks)

 [04] **Model Question**

Distinguish between ‘**Near Money**’ and ‘**Money Substitute**’ [04 marks]

[05] **Model Question**

List the Conversion Factor, when progressing from money supply definitions; (M1) to (M4) in as per CBSL [04 marks]

 [06] **Model Question**

What is meant by ‘**Base Money**’ and briefly discuss the process of creating such money by the Central Bank of Sri Lanka [05 marks]

**[07] Model Question**

**State** the factors which may lead to an expansion or contraction of a countries Monetary Aggregates; state the relationship between such factors and monetary aggregates

[05 marks]

**[08] Model Question**

Compare and contrast between 'Currency' and 'Bank Money'

[03 marks]

**[09] Model Question**

Outline the main components of Sri Lanka's Financial System and the main categories of Financial Institutions operating within the system at present.

[05 marks]



**[10] Model Question**

The following info; is pertaining to the balance sheet of a single bank within a competitive banking system

Demand Deposits	400,000	
Reserves	100,000	
Equity [Shareholder]	100,000	
Securities	110,000	
Loans	290,000	[Rupees Million]

Assume the banking system is decreed with a required reserves ratio of 10%

**Requirements;**

- (I) What is maximum loan amount this bank could extend if the lending possibility exists **[02 marks]**
- (II) How will this banks' balance sheet change; if the above stated loan amount is extended
- (III) Alternatively if the reserve ratio were 20% what is this banks loanable funds passion?

[03 marks each]

**[11] Model Question**

Assume in a competitive banking system commercial banks operate with a policy of maintaining zero excess reserves, with a legally enforced cash ratio of 25%. The general public's demand deposits held by the banking system and the narrow money supply of the economy is 4000, 5000 million rupees respectively.

- (I) Deduce the loan amount this system has extended [02 marks]
- (II) Assume that the general public deposits Rs. 200 million of currency held by them in to the banking system. How would total deposits of this system emerge, after the banks adjust for their final lending?
- (III) Estimate the value of the narrow money supply, after the banks have completed all adjustment [04 marks]



**[12] 2012 A/Ls (ECON – II): Q6**

What factors could cause the actual expansion of the money supply to differ from that given by the deposit expansion multiplier

**[04 marks]**

**[13] Model Question**

Outline the main components of Sri Lanka's national payment and settlement system and list the benefits of using the RTGS system for interbank settlements.

**[05 marks]**

**[14] Model Question**

Conduct a differentiation between the Money Market and the Capital Market; based on four (4) key factors.

**[04 marks]**

**[15] 2020 A/Ls (ECON – II): Q6**

**Sate four core functions of the Central Bank of Sri Lanka [04 marks]**

**[16] Model Question**

Provide a brief exposition of the Monetary Policy (MP) process, focusing on how deliberate changes to the money supply of the economy lead to the achievement of the alternative MP objectives.

**[05 marks]**

**[17] Model Question**

Briefly explain the process through which the CBSL Open Market Operations (OMO's), lead to a contraction in the economy's Money Supply.

**[04 marks]**

**[18] Model Question**

Outline the main components or features of the Active Open Market Operations (AOMO's) system introduced in Sri Lanka in 2003.

**[05 marks]**



**[19] Model Question**

Distinguish between the following pairs of Concepts relating to the Policy Interest Rate and daily money market Liquidity Management process of CBSL.

- (A) Standing Deposit & Lending Facility Rates
- (B) CB REPO & CB Reverse REPO

**[04 marks each]**



**[20] 2019 A/Ls (ECON – II): Q6**

**Explain** the role of the '**Standing Rate Corridor**' in maintaining the stability of financial system in Sri Lanka

**[04 marks]**

**'Pen on Paper'**

Keep up the good work, Keep Practicing