



**Department of Economics  
University of Colombo**

## **Master of Financial Economics 2025**

### ***Syllabi -Semester I***

<b>Course Module</b>	<b>Lecturers</b>
MFE 01 - Microeconomics	Professor SP Premaratne
MFE 02- Macroeconomics	Professor Sirimal Abeyratne
MFE 05 – Public Finance & Policies	Professor K Amirthalingam Mr Sugathadasa Ranugge
MFE 08 – Financial Accounting	Professor Abeayasinghe Dr. Nuradhi K. Jayasiri
MFE 09 - Financial Institutions in Sri Lanka	Prof. Preuanga Dunusinge Mr Susantha Dissanayake Mr Rasmin Lokubandara
MFE 11: Financial Statistics	Dr.T. A. Mahinda Pushpakumara

***Coordinator – Dr.T. A. Mahinda Pushpakumra***  
***Senior Lecturer***  
***Department of Economics***  
***Faculty of Arts***  
***University of Colombo***

## MFE 01: Microeconomics

### 1. Objective of the Course

The main emphasis of the course is on the theoretical microeconomic aspects of banking and finance. The familiarity with simple calculus techniques of optimization as used in microeconomic models is essential. The understanding of basic probability theory and comfort with using expected values is very useful. A preliminary knowledge of the institutional aspects of banking is helpful. This course uses asymmetric information approach of a modern microeconomics theory to explain the role of banks in the economy. The course provides description of the functions of banks and explains the needs for financial intermediation.

The objective of this course is to provide students with the use of microeconomic concepts, tools and techniques for banking and financial sector decision making. The course covers theories and applications. Throughout the course the students are expected to learn the importance of interactions between different markets relevant to financial sector particularly, the role and effects of public policy including monetary policy and fiscal policy and of the importance of information asymmetries across economic agents.

### 2. Scope of the Study

The course addresses the behavior of individuals and firms in the economy, examining issues such as individual optimization, the behavior of the firm in different market environments, exchange and general equilibrium. Applications to various markets will also be discussed. Market failures in the presence of asymmetric information, externalities, and public goods are also discussed. Experimental economics will be incorporated to a few topics.

### 3. Teaching Methods

Students are expected to participate actively for each session. The module will consist of take-home assignments, workshops, classroom tests in addition to teaching and discussions. Participants are encouraged to apply theoretical knowledge for the local and international practical issues.

### 4. Evaluation Procedures:

Continuous Assessments:	40 % marks
Two take-home assignment -	25 marks
One class room exam -	15 marks
Final Exam:	60 % marks
Total	100

### 5. Course contents:

Microeconomics methodology, analysis, and application; Preferences, Utilities and Choice; Choice under Uncertainty; Production and cost Theories of firms and Market Structure; General Equilibrium and Welfare Economics; Investment time and capital markets; Game Theory and Strategic Behavior; Externalities and Public Goods; Risk and Asymmetric Information; Dynamic microeconomic analysis

### 6. Recommended Readings:

1. Laidler, David and Saul, Estrin (1995), "Introduction to Microeconomics", Fourth edition, London.
2. Katz, Michael L. and Harvey S. Rosen, (1998), "Microeconomics", Third edition, Boston: Irwin/McGraw-Hill.
3. Hal R. Varian (2003), Intermediate Microeconomics: A Modern Approach, Sixth edition, Norton.
4. Brian R. Binger (1998), "Microeconomics with Calculus", Second Edition, Addison-Wesley.
5. Walter Nicholson (1998), "Microeconomics Theory: Basic Principles and Extensions" , Seventh Edition, the Dryden Press

6. X. Freixas and J. Rochet, (2008). Microeconomics of Banking, Cambridge, MIT Press.
7. Hans Degryse, Moshe Kim, and Steven Ongena, (2009) Microeconometrics of Banking: Methods, Applications, and Results, Oxford University Press

### 7. Detailed Course Outline

No	Topic	Hrs
1.	Utility; Marginal utility and Marginal rate of substitution; Substitutes, Complements, and Elasticity of substitution; Utility-maximization; 1st and 2nd order conditions, and Corner solutions; Indirect utility function and Expenditure function; Lump sum tax principle.	04
2.	Individual demands; Normal and Inferior goods; Substitution and Income effects; Giffen paradox; Compensated (Hicksian) and Uncompensated (Marshallian) demands and Slutsky equation; Compensating variation; Equivalent variation and Consumer surplus.	04
3.	Marginal and average physical product; Marginal productivity; Marginal rate of technical substitution; Returns to scale; Technical progress; Total, average and marginal cost functions; Short and long run cost functions; Envelope result; Shephard's lemma.	04
4.	Long-run equilibrium; Firm's long-run supply curve and the long-run market supply curve; Economic rent and producer Surplus, The consequences of government intervention through taxes, subsidies, price controls, and import quotas and tariffs in perfectly competitive markets; Incidence of a tax.	04
5.	Investment time and capital markets	03
6.	The price and quantity choices of a monopolist; The concepts of average and marginal revenue; The price elasticity of demand in monopoly pricing; The welfare effects of monopoly; The concept of natural monopoly; Price discrimination; Monopsony and Monopsony power.	02
7.	Monopolistic competition; Cournot models; Price competition; First-mover advantage; Competition Versus Collusion; Cartels.	04
8.	Gaming and strategic decisions; Dominant strategies; The Nash equilibrium; Mixed-strategy equilibria; Repeated games; Sequential games; Subgame-perfect equilibrium; Threats, Commitments, and Credibility; Entry Deterrence, Bargaining strategy.	04
9.	Assumptions for perfectly competitive price system; General equilibrium; Edgeworth box diagram; Production possibility frontier; Comparative static; Walras' Law; Existence of general equilibrium price vector; Efficiency concepts.	04
10.	Externalities; Ways of correcting market failure; Externalities and property rights; Common property resources; Public goods; Coase theorem	04
11.	Quality uncertainty and the market for "Lemons"; Market signaling; Moral Hazard; The principal Agent problem; Asymmetric information in Labor market (Efficiency wage theory).	04
12.	Dynamic microeconomic analysis: an introduction	04
	<b>Total Hours</b>	<b>45</b>

Please note that the department reserves the right to amend course outline from time to time with the consultation of respective lecturers/specialists in the field. The module lecturer reserves the right to alter the sequence of the lecture series and employ specialists in the field with the consultation of the coordinator of the program.

## MFE 02 - Macroeconomics

### Course Description

The course unit is designed to impart knowledge on macroeconomic models and to develop skills for the application of the models to analyze macroeconomic issues. Given the particular nature of the MFE programme, the focus would be more on the issues with internal and external finance, and the monetary, fiscal, and exchange rate policies. The course module begins with basic topics in Macroeconomics concepts and models, and develop into policy issues and macroeconomic controversies.

### Course objective

The objective of the course unit is to impart knowledge on macroeconomic modeling and to develop analytical skills to focus on macroeconomic issues with special reference to Sri Lanka.

### Assessment

Semester-end examination:	60%
Attendance and Continuous evaluations:	40%
	100

### Recommended Readings

One of the following textbooks

1. Blanchard, Oliver (2006) *Macroeconomics*, 4th ed, Prentice Hall
2. Dornbusch, R., Fisher, S. and Startz, R. (2001), *Macroeconomics*, McGraw Hill Irwin
3. Mankiw, N.G. (2010), *Macroeconomics*, Worth Publishers
4. Central Bank of Sri Lanka (latest issue), *Annual Report*

Apart from the above, students are advised to follow current macroeconomic policies and issues in the global economy and in Sri Lanka.

### Detailed course outline

	TOPICS	Hrs
1.	INTRODUCTION Introduction to subject area; Development of the subject; Macroeconomic issues, objectives and policies, Modeling the macroeconomy	2
2.	INCOME, OUTPUT, AND EXPENDITURE Circular income flow, National accounting, Output and Aggregate demand	4
3.	OUTPUT MARKET AND IS SCHEDULE Private consumption function; Aggregate demand and equilibrium output; Adjustment to disequilibrium; Expenditure multiplier; Taxation and consumption function; Public consumption spending; Aggregate demand and equilibrium output; IS schedule	6
4.	MONEY MARKET AND LM SCHEDULE Money and Central Banking; Money market and the bond market; Demand for and Supply of money; Determination of interest rate; LM schedule	6
5.	IS-LM ANALYSIS Equilibrium in goods and money markets; Connection between goods and money market; Fiscal and monetary policies; Policy debate (Output vs Price adjustment); Paradox of thrift	6
6.	PRICE LEVEL AND OUTPUT Deriving AD and AS curves; Keynesian vs Classical views; Macroeconomic policy responses (under fixed prices and wages and flexible prices and wages)	4
7.	MODELLING THE OPEN ECONOMY Foreign exchange market and exchange rate determination; Floating and fixed exchange	4

	rate systems; Real exchange rate; Net export function; Aggregate demand and equilibrium output; Expenditure multiplier	
8.	IS-LM-BOP FRAMEWORK BOP schedule; Position and slope of BOP line; Adjustment to external imbalances; Macroeconomic responses to policies and shocks; Mundel-Flemming model; International policy coordination	4
9.	OUTPUT GROWTH AND BUSINESS CYCLES	4
10.	MACROECONOMIC CONTROVERSY POLICY RESPONSES Keynesian versus Monetarist views; New Keynesians and New Classicals; Policy analysis	5
	TOTAL	45

## 05: Public Finance and Policies

### 1. Objective of the Course:

The objective of this module is to acquaint students with public finance principles and applications frequently used in the public finance literature. The course has been divided into two sections as theories and applications.

### 2. Scope of the Study:

This course is intended to offer a good knowledge in Public Finance principles, policies applications on the area of public finance. It assumes that students have strong knowledge in macroeconomics and other relevant areas of economics. Students who do not have knowledge in practice will need to read hard in the area in order to bridge the vacuum in their knowledge.

### 3. Teaching Methods:

Students are expected to participate actively for each session. The module will consist of take-home assignments, classroom tests in addition to teaching and discussions. Participants are encouraged to apply theoretical knowledge for the local and international practical issues in public finance.

### 4. Evaluation Procedures:

No	Topic	Hrs
1.	Introduction to Public Finance Historical development of public finance as a subject	2
2.	Objectives of public finance	2
3.	Public goods	2
4.	Role of government in an economy	2
5.	Fiscal Policy and Fiscal Deficit	2
6.	Government expenditure 6.1 Major purposes in government expenditures 6.2 Causes of real increases in government expenditures 6.3 Effects and policies of government expenditures 6.4 Government Expenditure Structure in Sri Lanka	4
7.	Financing of government expenditures 7.1 Importance of Taxation 7.2 Development and taxation 7.3 Government Revenue in Sri Lanka	4

	7.4 Tax Ratio	
	7.5 Revenue Composition in Sri Lanka	
8.	Government Borrowing 8.1 Cost and benefits of public debt 8.2 Magnitude, type and sources of debt in Sri Lanka	4
9.	Introduction to the public Policy	2
10.	Government and Market	2
11.	Economic Rationale for State Intervention	2
12.	Decentralized Government	2
13.	Business Tax: Theory and Practice	2
14.	Corporate taxation and firm behavior	2
15.	Local public finance and tax	2
16.	Administration of Public Funds in Sri Lanka	2
17.	Public Indebtedness and its impact in Sri Lanka	2
18.	Public Finance and Macroeconomic Stability in Sri Lanka I	2
19.	Public Finance and Macroeconomic Stability in Sri Lanka	2
20.	Discussion on the performance of individual assignments	1
	<b>Total</b>	<b>45</b>

Individual Assignment I	20%
Individual Assignment II	20%
Final Examination	<u>60%</u>
Total	100

#### 5. Course contents:

Ideas, concepts, and methods of analysis; Public policy measures; Bureaucracy; conservatism, and need for modernization; Budgetary policies and practices (taxation) Public sector deficits and debt; Privatization, corporatization; Welfare economics and public goods; Financial institutions and public sector; Public private partnerships; Fiscal federalism.

#### 6. Recommended Readings

1. Bernard P. Herber, (1999), Modern Public Finance.
2. Chellieah R.J. (Latest eds.), Fiscal Policy in Less Developed countries.
3. David N. Hyman, (1996), Public Finance, Contemporary Application of Theory to Policy, Brace College Publishers.
4. Rosen and Harvey S., (1999), Public Finance, McGraw Hill.
5. Musgrave R.A. and B.P., Musgrave (Latest Eds.), Public Finance in Theory and Practice, McGraw Hill.
6. Stiglitz E., (2000), Economics of The Public Sector, W. W. Norton & Co.
7. Rosen, Harvey S., and Gayer, T., (2008) Public Finance, 8th Edition, McGraw-Hill International Editions.
8. Baker, Samuel H. and Catherine S. Elliott. Readings in Public Finance, Thomson, 1991.
9. Barr, N, *The Economics of the Welfare State*, Oxford University Press, 2004.
10. Burns, Michael E. and Walsh, Cliff. 'Market Provision of Price-excludable Public Goods: A General Analysis', *The Journal of Political Economy*, 89(1):166-191, 1981.
11. Drennan, Matthew and Netzer, Dick. Readings in State and Local Public Finance, Blackwell, 2003.
12. Samuelson, Paul. 'Aspects of Public Expenditure Theories', *Review of Economics and Statistics*, 40(4):332-338, 1958.

This course acquaints students with how public policy develops and is adopted in the developed and developing governmental systems.

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## **MFE 08: Financial Accounting**

### **1. Objective of the Course:**

Accounting is the language of business. This course aims to provide students a broad understanding of business, role of accounting in business, the analysis, recording, summarizing, and reporting of business transactions, and the use of accounting information for decision making, planning, performance measurement, and control.

### **2. Scope of the Study:**

The course is divided into three sections. The first section aims to provide a sound understanding of how business activities are measured and communicated to stakeholders through the accounting information system. It covers the elements of financial statements, double entry book keeping system, accounting for finance, investing activities, and the preparation of statement of profit and loss and statement of financial position.

The second section of the course introduces to the accounting information for decision making, planning, performance measurement and control. It covers financial statement analysis, cost-volume-profit analysis, and the use of relevant information in decision making scenarios, budgeting and responsibility accounting, to improve performance evaluation and methods of valuation of businesses.

The final section provides insights to management best practices in terms of governance and reporting. The aspect of corporate governance, transparency and sustainability will be covered in this area.

### **3. Teaching Methods:**

Students are expected to participate actively for each session. The module will consist of take-home assignments, classroom tests in addition to teaching and discussions. Participants are encouraged to apply theoretical knowledge for the local and international practical issues in Accounting.

### **4. Evaluation Procedures:**

Individual Assignments (1)	20%
Classroom Test	10%
Group presentation	10%
Final Examination	<u>60%</u>
Total	100

### **5. Course contents:**

- Understanding what business is and how businesses create value, the role of information in business and the information needs of stakeholders to prepare financial statements.
- Theories and assumptions used in preparation and interpretation of financial statements.
- Analysis and evaluation of accounting information for decision making, planning and control.
- Establishment of accountability, fairness, and ethical reasoning of financial statements.

### **6. Recommended Readings**

1. Global Financial Reporting and Analysis – published by Cengage Learning Alexander/Britton/Jorissen, 2007
2. Managerial Accounting 7th ed, by Ronald W Hilton/G Ramesh/ M Jayadev
3. Practical Accounting by Augustine Benedict & Barry Elliott- Pearson Education
4. Recent Annual Reports of Public Listed Companies and Banks
5. Latest publications by the Institute of Chartered Accountants and the Securities and Exchange Commission of Sri Lanka

## 7. Detailed Course Outline

No	Topic	Hrs
1.	Introduction: Overview of Financial Reporting Process and role of Accounting in Business	2
2.	Accounting Theory and Double Entry System	2
3.	Preparation and presentation of Basic Financial Statements	2
4.	Financial Statement Analysis – Ratios and trends	2
5.	Financial Statement Analysis – Vertical and horizontal analysis	2
6.	The cost concepts	2
7.	Break-even analysis	2
8.	Analytics for management decision making	2
9.	Working Capital theories	2
10.	Management of working capital	2
11.	Group Presentations - A	2
12.	Group Presentations - B	2
13.	Group Presentations - B	2
14.	Business combinations	2
15.	Valuation of business (theory)	2
16.	Valuation of business (application)	2
17.	Class room test	2
18.	Corporate Governance	2
19.	Best practices in Corporate Governance	2
20.	Sustainability Reporting	2
21.	Integrated Reporting Framework	2
22.	Discussion on the performance of individual assignments	3
	<b>Total</b>	<b>45</b>

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### **MFE 09: Financial Institutions in Sri Lanka**

#### **Objective of the Course:**

The main objective of the module is to acquaint students with the practical aspects of Financial Institutions in Sri Lanka and the performance of such institutions while the main emphasis will be on the performance of both public and private sector financial institutions and their involvements in the markets/economy.

#### **Scope of the Study:**

The focus is on the functions of the private and public sector financial institutions in Sri Lanka with a special emphasis on the post liberalized developments of the financial sector. Students are also expected to be knowledgeable with the new developments in the world's financial institutions and their implications on Sri Lanka. As much as possible an emphasis will be placed to cover the theoretical backgrounds to the financial sector issues and their application to practical situations.



**Teaching Methods:**

Students are expected to participate actively for each session. The module will consist of take-home assignments, classroom tests, and class presentations in addition to teaching and discussions. Participants are encouraged to apply theoretical knowledge of the module for the local and international practical situations.

**Course contents:**

This module addresses the historical and contemporary major issues in the financial sector in Sri Lanka paying special attention to the post liberalization period. The course begins with an introduction to the subject and evolution of the sector in the past. The traditional as well as modern practices of the institutions will be introduced while emphasizing on the world's current developments.

**Recommended Readings:**

- Anand Chandavakar, (1992), Finance and Development: Neglected and Unsettled Questions, World Development Vo. 20, No. 1  
 Central Bank of Sri Lanka, (2004), A Guide to Financial Services in Sri Lanka.  
 Central Bank of Sri Lanka, Annual Reports.  
 Central Bank of Sri Lanka (2014), A Step by Step Guide to Foreign Exchange Transactions.  
 Central Bank of Sri Lanka, Directions, Determinations and Circulars issued to Licensed Commercial Banks and Licensed Specialized Banks.  
 Central Bank of Sri Lanka, Directions, Rules, Determinations, Notices and Circulars applicable to Licensed Finance Companies and Specialized Leasing Companies.  
 Central Bank of Sri Lanka, Economic Progress of Independent Sri Lanka, (1998).  
 Central Bank of Sri Lanka, Financial System Stability Reviews.  
 Central Bank of Sri Lanka, Recent Economic Developments, Highlights of 2013 and Prospects for 2014.  
 Central Bank of Sri Lanka, Road Map 2014.  
 Central Bank of Sri Lanka, Socio Economic Statistics of the Central Bank.  
 Central Bank of Sri Lanka, Staff Studies.  
 Hemachandra W.M. (2005), Financial Deepening and its implications for the Sri Lankan Economy, Central Bank of Sri Lanka.  
 Hemachandra W.M. (2013), Interest Rates- The Theory and Practice, Central Bank of Sri Lanka.  
 Karunatilake, H.N.S., (1986), The Banking and Financial System of Sri Lanka, Sridevi Printing Workers, Dehiwela, Sri Lanka.  
 Karunatilake, H.N.S., (2000), Fifty Years of Central Banking in Sri Lanka (1950-2000), Sridevi Printers (Private Ltd), Sri Lanka.

Koch, Timothy and S. Scott MacDonald, 2010, Bank Management, Thomson South-Western

Anthony Saunders & Marcia Millon Cornet , 2008, Financial Institution Management : A Risk Management Approach, Mcgraw Hill

Stephen G. Cecchetti, Kermill Schoenholtz, James Fackler, Money, Banking and Financial Markets, McGraw-Hill/Irwin

	<b>Topic</b>	<b>Hrs</b>
	<b>Part 1</b>	2
1.	Theories and models relating to financial sector developments	2
2.	Demand Following and Supply Leading phenomenon of financial developments	2
3.	Structure of Financial Institutions in Sri Lanka	2
4.	Main periods of evolution of financial institutions in Sri Lanka	2
5.	Monetary system of Sri Lanka – prior to 1950 and present	2
6.	Role of specific financial institutions in Sri Lanka (Central Bank and other financial institutions)	2
7.	Monetary policy of the Central Bank	2

8.	Class Room Test	2
9.	Financial sector performance in Sri Lanka and indicators to measure	2
10.	Unorganized financial sector and micro financing	2
11.	Financial institutions and the debt securities market in Sri Lanka	2
12.	Debt Instruments, Interest rates and the behaviour of financial institutions	4
13.	Measures relating to Financial Sector Stability including Strategic Planning and Competitiveness of Financial Institutions	2
14.	Laws Relating to Financial Institutions in Sri Lanka	2
15.	Financial crises and implications for Sri Lanka	2
16.	Take Home Assignments	
17.	Services currently offered by financial institutions & related issues	2
18.	Risk management in financial institutions and its importance	2
19.	Measuring credit and interest rate risks.	2
20.	Measuring foreign exchange, liquidity and other risks	2
21.	Managing Risks -Asset –Liability Management	2
22.	Financial derivatives	2
23.	Risk management through financial derivatives	1
	<b>Total</b>	45

### **MFE 11: Financial Statistics**

#### **Objective of the Course:**

The objective of the module is to acquaint students with Statistics frequently used in the analysis of econometrics and financial data. The course has been divided into two sections as statistical techniques and application of suitable software packages such as Excel and, SPSS.

The course covers key statistical methods and data analytic techniques most relevant to finance. Hands-on experience in analyzing financial data in the Excel environment is an essential part of the course.

#### **Scope of the Study:**

This course is intended to offer a good knowledge in the fundamental techniques of statistics and its applications on econometrics in analyzing the area of financial statistics. It assumes that students have some basic knowledge in mathematics and statistics. Students who do not have some basic knowledge in statistics will need to work particularly hard in order to catch up. Practical examples will be used in order to apply the financial theory and statistical software for data analysis.

#### **Teaching Methods**

Students are expected to participate actively for each session. The module will consist of take-home assignments, classroom tests in addition to teaching and discussions. Participants are encouraged apply theoretical knowledge for the local and international practical issues. The final examination will carry 60 marks out of 100 while the balance is allocated for continuous assessments.

**Course contents:**

Descriptive statistics: histograms, the average, the standard deviation, the normal curve, correlation.  
 Probability and distributions: chance models, expected value, standard error, probability histograms, convergence to the normal curve, binomial, poisson, normal, exponential distributions and their properties.  
 Statistical inference: estimation, measurement error, tests of statistical significance, Analysis of variance, Practical examples in Excel environment.

**Recommended Readings:**

Freedman, D., Pisani, R., and Purves, R. (2007), Statistics, Norton, New York and London, 4th edition.  
 Paul Newbold (1988), Statistics for Business and Economics, Prentice Hall, Englewood Cliffs, New Jersey.

**Detailed Course Outline**

	Topic	Hours
1.	Introduction, Descriptive statistics	3
2.	Probability and statistics: Random variables and probability distributions	3
3.	Probability distributions cont. (Normal, t, $\chi^2$ and F)	6
4.	Normal Approximation (Binomial etc.)	3
5.	Sampling	6
6.	Introduction to Inference	6
7.	Hypothesis test	3
8.	Advance Hypothesis test	3
9.	Excel environment for Statistics	6
10.	Applications in Finance and Economics	6
	<b>Total</b>	<b>45</b>

## ***Syllabi -Semester II***

<b>Course Module</b>	<b>Lecturers</b>
MFE 03 – Econometrics	Dr. Mahinda Pushpakumra
MFE 04- International Finance and Financial Institutions	Professor . Preyanga Dunusinghe Dr. Mahinda Pushpakumra Mr. Indrajith Boyagada
MFE 06– Financial Markets	Ms Vindhya Jayasekera Professor. Chandana Aluthge
MFE 07- Current Economics Issues	Rev. Professor W. Wimalaratana
MFE 10- Project planning and appraisal	Professor. S P premarathna Professor Athula Ranasinghe
MFE 12- Management Process and Practices	Professor Gamini Alwise Dr. S Shashithanganee Weerawansa

### **MFE 03 - Econometrics**

#### **Objective of the Course:**

The objective of the module is to acquaint students with Statistics frequently used in the analysis of econometrics and financial data. The course has been divided into two sections as statistical techniques and application of suitable software packages such as Excel, Minitab, SPSS.

The course covers key econometric models and financial data analytic. Hands-on experience in analyzing financial data in the Excel environment is an essential part of the course.

#### **Scope of the Study:**

This course is intended to offer a good knowledge in the fundamental techniques of regression, econometric models and their applications on finance. It assumes that students have some basic knowledge in mathematics and statistics. Students who do not have some basic knowledge in statistics will need to work particularly hard in order to catch up. Practical examples will be used in order to apply the financial theory and statistical software for data analysis.

#### **Teaching Methods:**

Students are expected to participate actively for each session. The module will consist of take-home assignments, classroom tests in addition to teaching and discussions. Participants are encouraged apply

theoretical knowledge for the local and international practical issues. The final examination will carry 60 marks out of 100 while the balance is allocated for continuous assessments.

**Course contents:**

Simple and multiple regressions, the interpretation and evaluation of regression models, Log models, discussions on multi-collinearity and auto correlation, time series modelling for asset returns, modeling volatility, VAR models, present-value models, simulation methods for derivative pricing, Excel solvers for practical problems.

**Recommended Readings:**

Freedman, D., Pisani, R., and Purves, R. (2007), **Statistics**, Norton, New York and London, 4th edition.

**Paul Newbold (1988), Statistics for Business and Economics, Prentice Hall, Englewood Cliffs, New Jersey.**

No	Topic	Hrs
1.	Introduction simple regression	3
2.	Estimation	3
3.	Simple regression and inference	3
4.	Introduction to multiple regression	3
5.	Review of linear algebra	3
6.	Estimation	3
7.	Multiple regression and inference	3
8.	Bias-Variance Decomposition	3
9.	Model Selection Criteria	3
10.	Model Estimation	3
11.	Logistic Regression With Replication	3
12.	Generalized Linear Models	3
13.	Non Parametric regression	3
14.	Applications in Finance and Economics	3
15.	Applications in Finance and Economics	3
	<b>Total Contact Hours</b>	<b>45</b>

### MFE 04: International Finance

**1. Course Objectives:**

The course is aimed at providing a thorough coverage of the subject of International Finance placing it in its proper context within the disciplines of international economics and macroeconomics. Theory as well as the relevant policy issues will be analysed in sufficient detail, especially as they apply to a transition economy progressing towards the status of becoming a vibrant open free market economy in the region.

**2. Scope of the Subject:**

Starting from the macroeconomic backdrop in which the subject always remains entrenched in, the principles of free trade and the ideals of international interactions and cooperation will be stressed throughout. [The](#) need to exploit the benefits of comparative economic advantages possessed by each nation to maximize the welfare and the wellbeing of everybody will be emphasized during the course. The progressive historical evolution from being isolated nations striving to be self-sufficient to the present trend towards regional integration culminating in global economic cooperation will be charted during the course. A critical analysis of the economic crises confronting the nations at present will be addressed with an analysis of the probable causes as well as the possible solutions based on international trade and cooperation will be stressed throughout the course.

**3. Pedagogy of Course Delivery:**

The Course will be delivered in 20 two hour interactive lecture/discussion sessions. All participants are expected to actively take part in all discussions, critically analysing the materials delivered during the lecture sessions.

4. Learning Assimilation Evaluation:

a) Continuous assessments:

i) Group Assignment & Individual Participation / Presentations – 20 + 5 marks

ii) Mid-term Class Test – 15 marks

b) Final Exam – 60 marks

5. Course Content & Lecture Schedule: (Pl. see on the next page)

6. Recommended Reading:

i) International Finance: Theory and Policy, v. 1.2 (PDF copy will be provided)

(2010) Steve Suranovic

ii) International Finance (7th edition. Edition)

(2014) Cheol Eun, Bruce G. Resnick, Sanjiv Sabherwal

iii) International Finance: Theory and Policy, Global Edition (Paperback) (10th Edition)

(2014) Paul Krugman, Maurice Obstfeld, Marc Melitz

WEEK	TOPIC	HOURS
1	Historical backdrop and the macroeconomic scenario in which Int'l Finance developed as a discipline. Bretton Woods institutions and their role	02
2	Multi sector model of the open economy, National income accounting and macroeconomic variables and their inter relationships	02
3	Overview of the development of foreign exchange regimes from the Gold Standard era to the present day floating exchange rate regimes	02
4	Trade balances, current account balances and balance of payment (BOP) statements.	02
5	Relationship between the budget deficit and the current account deficit. The concept of the 'twin deficit identity'	02
6	National Welfare effects resulting from trade imbalances. Remedial measures to remedy trade imbalances under different scenarios and their implications	02
7	Trade Imbalances and the implications of the differences in International Investment Position of the country.	02
8	Floating Exchange Rate regimes, Forex markets and exchange rate determination/ forex rate discovery through active trading	02
9	Returns from forex trading. Directly and Indirectly quoted currencies. Rates of Return calculations using simple, compound and continuous compounding formulae	02
10	Interest Rate Parity (IRP) in Fixed Exchange Rate Regimes and Rate of Return Parity in Floating Exchange Rate regimes. Use of natural logarithms in computing rate of return	02
11	Mid-term Assessment	02
12	Securities and their Derivatives. Derivative Instruments and markets. Forwards. Futures and Options. Role of Derivatives in Financial Risk Management	02
13	Types of Options and Option Combinations employed to achieve specific goals. BSM Option pricing model. Leverage provided by options. Hedging risk with options	02
14	Interest Rate Parity: Forex equilibrium with interest rate parity. RoR diagrams. Endogenous and Exogenous variables in the RoR parity model	02
15	Purchasing Power Parity (PPP) theory and its limitations. Law of One Price (LoOP). Arbitrage opportunities arising from deviations from LoOP.	02
16	PPP and its relevance to Consumer Price Indices (CPI) calculation in different countries. PPP as a theory for Exchange Rate Calculations/ cross country comparisons	02
17	Assignment Presentations	03
18	Interest Rate Determination. Money and its functions. Money as Unit of Account, Medium of Exchange, Store of Value. Money Supply measures	02

19	Components of M1, M2 & M3. Central Bank or the Monetary Authority as the determiner of money supply in a country. Three levers for affecting the money supply	02
20	Money Supply vs Demand for Money. Factors influencing Demand for Money. Interest Rate as the price of money. Integration of the Money & Forex Markets.	02
21	National Output Determination in an Open Economy. Relationship between GDP, GNP and NFIA in an open economy. Output and Import Function. Real Exchange Rate	02
22	IS- LM-BOP analysis in an open economy under fixed and floating exchange rate regimes with or without full capital mobility. Macroeconomics & Int'l Finance.	02
	TOTAL	45

Course Content & Lecture Schedule

**MFE 06: Financial Markets**

**Contents of the Course:**

1.	Introduction to Financial Markets and Financial Intermediation	2
2.	The Money Market	2
3.	The Bond Market - Introduction to Fixed Income Securities	3
4.	The Bond Market - Valuation of Fixed income securities and measurement of Return	4
5.	The Bond Market - Managing Bond Portfolios	4
6.	Term structure of interest rates	2
7.	Capital Market Efficiency: Efficient Market Hypothesis	2
8.	The Stock Market - Measurement of return and valuation of equity securities	2
9.	The Stock Market - Stock market benchmarks	2
10.	The Stock Market - Margin Trades and Short Selling	2
11.	Portfolio theory – Capital Asset Pricing Model	4
12.	Mutual Funds	2
13.	Derivatives: Forwards / Futures / Options / Swaps	6
14.	Securitization	2
15.	Investment Banking and the Role of Investment Banks in the Development of Financial Markets	2
16.	REITs, Real Estate and Commodity Markets	2
17.	Conflicts of Interest in financial markets	2
	Total	45

**Evaluation:**

End of Semester Examination	<b>60%</b>
Continuous Assessment	<b>40%</b>
Mid-semester test	<b>15%</b>
Portfolio Assignment – Fixed Income (Group)	<b>13%</b>
Portfolio Assignment – Equity (Group)	<b>12%</b>

**Recommended Text:**

- Bodie, Kane and Marcus (1999), *“Essentials of Investments”*, Seventh Edition, Irwin/McGraw-Hill.
- Mishkin, Fredric S. and Eakins, Stanley G. *“Financial Markets and Institutions”*, Sixth Edition, Pearson Education

**Mid Semester Exam:**

The Mid Semester Exam would be held **Sunday, August 03, 2014**. The exam would be approximately 1.5 – 2.0 hours in duration and would comprise of 15% of the total grade. The exam would cover all material including material covered during the final lecture immediately prior to the exam. A mix of theoretical and mathematical subject matter will be evaluated through MCQs and short answer questions. The exam would be a closed book exam.

**Make-up Exam - Policies and Procedures**

The purpose of the make-up exam is to allow students with *legitimate reasons* for missing a scheduled exam, to fulfill the requirements of the course. If any student is unable to sit for the scheduled mid semester exam, he/she must inform the lecturer and the program coordinator in writing **prior** to the mid semester exam. Students who fail to inform the lecturer and program coordinator of a legitimate reason may still sit for the make-up exam but would be subject to an automatic penalty of 20% of the total grade of 100. The make-up exam would cover all material up to and including material covered during the final lecture immediately prior to the make-up exam.

**Group Assignment:**

The Group assignment would consist of two portfolio assignments in Fixed Income and Equity. Each Group may consist of a minimum of 4 persons and a maximum of 7. The instructions for each assignment would be provided separately.

**End-of-Semester Examination:**

The End of Semester Exam would be 3.0 hours in duration comprising of approximately between 7 - 9 questions with sub sections. A mix of theoretical and mathematical subject matter would be evaluated with attention to practical aspects. The exam would comprise of 60% of the total grade and would be a closed book exam.

**Late submission policy:**

Assignments may be submitted maximum up to five (05) working days after the due date with the penalty of reduced marks. Penalty of late submission may be one (01) mark for each day with the maximum of five (05) marks. Late submission policy is applicable to each leg of the Group assignment – submission of initial portfolio and Submission of Final Report and for the Individual assignment. No assignment submitted after this late submission period would be accepted for marking. If any student requires more than five working days to submit the assignment for a reason acceptable to the Faculty he or she should make that request well in advance from the Lecturer.

**Academic misconduct, cheating and plagiarism:**

Plagiarism is the presentation of another’s academic work without acknowledging appropriately. Whether one presents another’s academic work as one’s own intentionally or unintentionally, it is taken as academic misconduct. Not only direct quotation but also paraphrasing should be acknowledged appropriately. Even with proper acknowledgement, inclusion presentation of another’s academic work in a given assignment should be limited and the limit may vary from one assignment to another.

Often reported forms of cheating may include copying of another student’s work completely or partly, getting another to do the assignment completely or partly, inclusion of the name(s) of student(s) who has/have not contributed to the assignment appropriately and reporting fieldwork which the student(s) has/have not carried out.



## 1. Objective of the Course

1. To persuade students to keep in touch with current changes in the world economy.
2. To use the participants' theoretical economics knowledge to analyze the current world issues.
3. To encourage students to
4. To identify the possible links between current world issues and the economy of Sri Lanka.

## 2. Scope of the Study

There are no fixed topics for this course although the major themes to be covered appear in the syllabus. Important current events may be selected depicting wider areas of the world economy. Topics proposed at the commencement of the course provide only basic guidelines to the student, which may be replaced by new topics taking into account the new developments in the world economy.

## 3. Teaching Methods

Classes/seminars are conducted on a participatory basis. Students are expected to participate actively for each session. There are group presentations and discussions for each major topic/session. Participants are supposed to be under the vigilance on changing events in the world economy.

## 4. Evaluation Procedures

Individual Assignments (2x10)	20	
Classroom Tests/practical classes (2x10)	20	
Final Examination	<u>60</u>	
Total		100

## 5. Course Contents

Current setup of the world economy; International Finance and Financial Institutions; Economic Impacts of International Conflicts; MNCs, Globalization and the World economy; Population, Environment, Health and Gender Related Issues; Major Issues related to Developing Countries; International Trade and Investment; Regional Economic Blocks.

## 6. Reference List

1. Business Pages of Local News Papers
2. Far Eastern Economic Review
3. Financial Times
4. Human Development Report, UNDP
5. IBRD, IMF, WTO, UNDP and ECB Publications
6. The Economist
7. The Time
8. World Development Report, IBRD

## 7. Detailed Course Outline

No	Topic	Hrs
1.	World economic setup-G8, OECD, North South	2
2.	Capitalism and its practice in the world	2
3.	Socialism and its practice	3
4.	Current macroeconomic management policies	2
5.	US economy and its impact on the world economy	2
6.	EU, Japan and other developed economies	2
7.	Chinese economy	4

8.	Indian economy	2
9.	Consumer and business confidence	4
10.	Corruption and governance	2
11.	International conflicts	2
12.	International migration trends	2
13.	Demography, labor force and related issues	2
14.	Developing countries	2
15.	Regional economic blocks and SAARC	2
16.	Poverty and poverty reduction policies	2
17.	International aid and debt	2
18.	WTO and related issues	2
19.	Globalization and developing countries	2
20.	Commodity markets	2
	Total	45

Please note that the department reserves the right to amend course outline from time to time with the consultation of respective lecturers/specialists in the field. The module lecturer reserves the right to alter the sequence of the lecture series and employ specialists in the field with the consultation of the coordinator of the program.

### **MFE 10: Project planning and appraisal.**

#### **1. Objective of the Course:**

The main objective of MAFE-10 is to acquaint students with the practical aspects project planning, appraisal and the techniques frequently used in the analysis of evaluation. While the main emphasis will be on the appraisal of private sector projects, additional analytical tools use in the appraisal of public sector projects will also be dealt with.

#### **2. Scope of the Study:**

This course is intended to offer a good knowledge of fundamental techniques of project appraisal in private and public sectors with a special emphasis on applications of those techniques in various sectors of the economy. It assumes that students have some basic knowledge of economic theory and accounting. As much as possible, real life examples will be used in order to apply the theory and the use of computer software for project appraisal will be encouraged.

#### **3. Teaching Methods**

Students are expected to participate actively for each session. The module will consist of take-home assignments, classroom tests in addition to teaching and discussions. Participants are encouraged to apply theoretical knowledge for the local and international practical issues.

#### **4. Evaluation Procedures:**

Individual Assignments (2x10)	20
Classroom Tests/practical classes (2x10)	20
Final Examination	<u>60</u>
Total	100

#### **5. Course contents:**

The course begins with an introduction to projects and planning. Thereafter, the importance of appraisal, techniques of appraisal both traditional as well as modern will be introduced. Criteria for acceptance or rejection of projects, additional criteria in case of public sector projects, constraints faced by evaluators are also discussed. Finally case studies in various sectors of the economy will be introduced.

#### **6. Recommended Readings:**

1. Gittinger, J. Price Johns Hopkins (1982), *Economic Analysis of Agricultural Projects*,
2. Irvin G, (1978) *Modern cost benefits methods*, , MacMillan.

3. Little, *Project Appraisal And'planning for 'Developing Countries*, I.M.D. & Mirrlees, Johns Hopkins for the World Bank. .
4. Sugden and.Williams (1978), *Cost benefit analysis and project evaluation*, .OUP.
5. UNIDO, *Guide Lines For Project Evaluation*, UNIDO 1972.

## 7. Detailed Course Outline

Week	Topic	Hrs
1.	Introduction to project analysis, Planning a project, The definition of a project, Objective of evaluating project, Identification of projects, Evaluation of projects in the private sector and public sector, objectives; are they same for both ?	03
2.	The financial analysis of projects, preparation of cash flows, traditional methods of analysis, introduction to time value of money, time preference, marginal time preference rates of different people	02
3.	Discounting techniques of project appraisal; NPV&IRR, problems related with NPV &IRR techniques; mutual exclusive projects, extended IRR.	03
4.	Discounting techniques... cont.	02
5.	Choice of discount rate, Perfect capital markets, Differences in MTPRs between individuals ,Cost of capital approach to discount rate. Input rationing and uncertainty's preliminary treatment.	02
6.	Introduction to CBA; Paretian approach. Difference between private sector and public sector project analysis.	02
7.	Introduction to CBA ... cont.	
8.	Introduction to accounting prices, market prices and accounting prices, price and quantity restrictions, taxation ,monopoly power and public 'control pf prices.	03
9.	Direct and indirect effects of price changes; consumer and producer surplus, accounting price of labour foreign exchange valuation of traded and untraded goods. valuation of other factors.	03
10.	Choice of discount rate in economic analysis.	02
11.	Risk and Uncertainty in project appraisal Sensitivity analysis.	02
12.	. Little and Mirrlees and Unido,-A compar1son	02
13.	Mid - Semester Examination	02
14.	The analysis of industrial projects. The analysis of agricultural projects	02
15.	The analysis of irrigation projects	02
16.	. The analysis of transport projects.	02
17.	The analysis of projects in education.	02
18.	The analysis of projects in the health sector.	02
19.	The analysis of welfare projects.	02
20.	Economic policy and project evaluation. Conflicts of politics and economics and the limitations.	03
	<b>Total Contact Hours</b>	<b>45</b>

Please note that the department reserves the right to amend course outline from time to time with the consultation of respective lecturers/specialists in the field. The module lecturer reserves the right to alter the sequence of the lecture series and employ specialists in the field with the consultation of the coordinator of the program.

### MFE 12 : Management Process and Practices

Management is a complex and often controversial subject. Organisations both large and small need to continually innovate, challenge the traditional assumptions and be prepared to confront the status quo. Organisational leaders are being presented with a vast array of new opportunities in the ever-changing global economy.

The broad objective of this module is to prepare managers for an exciting, challenging, and rewarding managerial career. This will be achieved through discussion of the roles of employees, the structure of organisations and how organizations work. The course will also touch upon the importance of Globalization, Human Resources, Change Management, Strategic Management & Marketing Management in the modern Management context.

**Detailed Course Contents:**

	<b>Topic</b>	<b>Hrs.</b>
1	<b>Introduction to Management</b> Efficiency & Effectiveness, Kinds of managers, What managers do. Managerial Functions & Roles. Management Skills. Importance of Innovation to a Manager	02
2	<b>Evolution &amp; Historical Background of Management</b> Classical approach, behavioural approach, Quantitative approach, Contingency approach. Managing E Business	02
3	<b>Managing in a Global Environment</b> What is Globalization & its impact on business. Different type of Global Organizations & its impact on Host countries. . How Organizations go Global. Managing in a Global environment- Legal/Political/Economical/Cultural. Anti Globalization	04
4	<b>Organizational Culture and Environment</b> What is Organizational Culture. Dimensions of Organisational Culture. How Employees learn Culture. Culture & Organisational Performance. Ethics & Culture. Environment	04
5	<b>Decision Making &amp; Planning</b> Decision Making Process, Assumptions, Types of Problems & Decisions. Decisions making Conditions. What's Planning & the purpose of Planning. Planning & Performance. Types of Plans, Goal /Objective Setting. SMART Goals. Steps in Goal Setting. Developing Plans & its Criticisms. Planning Tools & Techniques	04
6	<b>Organizational Structure &amp; Design</b> Purpose of Organizing, Work Specialization. Strategy & Structure. Types of Organizational Structures – Simple, Divisional, Functional, Product/Market, Matrix,	02
7	<b>Managing Change &amp; Innovation</b> What's Change, Forces of Change - External & Internal Managing Change, Types of Change. Managing Resistance to change - <b>Creativity &amp; Innovation in the organization</b>	02
8	<b>Social Responsibility &amp; Managerial Ethics</b> What's Social Responsibility, Environmental Issues & How organization can go Green. Ethics & Factors that Affect Employee Ethics. Ethical Leadership	02
9	<b>Human Resources Management</b> Why HRM is important to all Managers. Strategic HRM Changing Environment of HRM - Globalization, Technological & Demographics Trends Recruitment & Placement Training & Development Compensation	04
	<b>Motivating Employees</b>	04

10	Motivation Theories – Maslows, McGregor, Herzberg Contemporary Theories – Three Needs Theory, Goal Setting Theory , Expectancy Theory& Equity Theory Current Issues in Motivation: Cultural Challengers, Diversity Challengers.	
11	<b>Leadership</b> Managers vs Leaders Leadership Theories , Behavioural Theories Contingency Theories- Situational Leadership Theory Leadership Issue in the 21 <sup>st</sup> Century – Managing power, Moral leadership & Empowering	04
12	<b>Controlling</b> Identifying Key performance Indicators (KPI) & Strategic Control points Financial Controls – Financial Statements- Liquidity, Profitability Budgetary control Methods – Revenue Center, Expense Center , Profit Center, Investment Center Budgeting Process, Types of Budgets & Audits	02
13	<b>Strategic Management</b> Introduction to Strategy & Levels of Strategy. Strategic Planning – Developing Vision & Mission Statement Strategic Environment – Pestel Analysis, Porters 5 Forces Framework . Concept of Core competencies & Value Chain	04
14	<b>Introduction to Marketing Management</b> Philosophies: Production Concept , Product, Selling & Marketing Concept, Societal Marketing Concept. Marketing Mix: 4 P's & S	03
15	<b>Review &amp; Discussion of Questions</b>	02
	<b>Total</b>	<b>45</b>

#### Recommended Readings:

1. Stephen P. Robins and Mary Coulter (2013), **Management**, 12<sup>th</sup> Edition, Delhi: Pearson Prentice Hall.
2. Samson, D. & Daft, R.L. (2012). **Management**: Second Pacific Rim Edition. Victoria: Thomson.
3. Harvard Business Review
4. Journal of Management

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#### Assessment Criteria

Assessment	Date due	Marks
Assignment 1 – Take Home Individual Assignment	Mid Semester	20%
Assignment 2 – Group Presentation	End of Semester	20%
Assignment 3 – Final Examination	Exam week, TBA	60%

