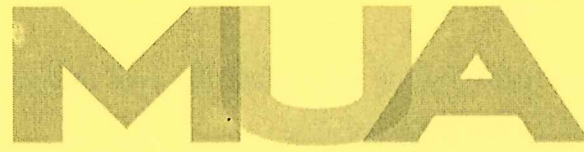


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UNDERGRADUATE UNIVERSITY EXAMINATIONS  
SCHOOL OF MANAGEMENT AND LEADERSHIP  
DEGREE OF BACHELOR OF COMMERCE

*FIN 322: FINANCIAL RISK MANAGEMENT*

*DATE: 8<sup>TH</sup> AUGUST 2019*

*DURATION: 2 HOURS*  
*MAXIMUM MARKS: 70*

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided

### QUESTION ONE

Read the case study below very carefully and answer the questions that follow

a) MBOLEA ENTERPRISES

Mbolea enterprise is a newly established company registered in Nairobi to manufacture agro-pesticides. They have envisaged among others to acquire the following;-

- Ultra-modern manufacturing plant
- Ultra-modern industrial premises
- Delivery trucks
- Employ two hundred staff
- Build up staff residential estate with basic social amenities
- Sink two boreholes to provide water
- Export the by products from the plant to Uganda as raw materials for fertilizer
- Run several distribution outlets
- Hire out or contract retail outlets in the outer towns
- Supplement KP&LC's power with two diesel generators
- Sell all her product brands to the East African market and the COMESA region.

As a risk manager with "Prudent Risk Management Advisory Services" you have been contracted to chart out types of Risk exposures for the company. Advice. (20 marks)

- b) Briefly explain the meaning of risk. (5 marks)

### QUESTION TWO

- a) Explain ways in which interest rate can be hedged on (5 marks)
- b) Discuss the risk management strategies in an organization (10 marks)

### QUESTION THREE

Exchange rates affect the investment and returns .Explain foreign exchange risk that we have in the market. (15 marks)

### QUESTION FOUR

- a) A US firm sells good to a Kenyan importer with price of \$10,000, with payments due in 90 days. The current spot exchange rate is Kshs.86/\$1, so the price of the sale in foreign currency is Kshs.860, 000. The transaction exposure arises because in all likelihood the foreign buyer will not probably pay Kshs 860,000 because the

spot rate will differ on the settlement date, evaluate available options

(8 marks)

b) Explain two methods of risk financing

(7 marks)

**QUESTION FIVE**

Discuss three various ways that can be used to hedge interest rates

(15 marks)

**QUESTION SIX**

Business should not risk too much by assuming risks they may not have capacity to accommodate. Discuss.

(15 marks)

