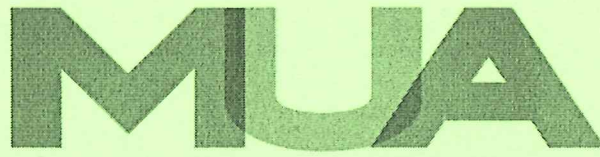


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 322 : FINANCIAL RISK MANAGEMENT

DATE: 4TH APRIL 2022

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 carefully and answer the questions that follow:

BUYANI LIMITED

Buyani Limited wishes to invest Ksh 400,000 in a project which has a 6-year life span.

The net cash inflow of the project is as follows:

| <u>YEAR</u> | <u>KSH.</u> |
|-------------|-------------|
| Year 1 | 100,000 |
| Year 2 | 20,000 |
| Year 3 | 50,000 |
| Year 4 | 60,000 |
| Year 5 | 100,000 |
| Year 6 | 100,000. |

The cost of capital is 10%.

Required;

- a) Calculate the net present value of the project (8 Marks)
- b) Should this project be accepted (2 Marks)
- c) Show your understanding of the following terms as used in financial risk management
 - i. Risk aversion (2.5 Marks)
 - ii. Uncertainty (2.5 Marks)
- d) Describe five (5) benefits of risk management to Buyani limited (10 Marks)

QUESTION TWO

- a) Describe the risk management process as employed by organizations (12 Marks)
- b) Highlight five (5) causes of risk in organizations (5 Marks)

QUESTION THREE

- a) Assess five (5) types of transaction risks (10 Marks)
- b) Calculate the unrealized profit or loss on Ksh. 20,000,000 which were purchased at a rate of US\$1 = Ksh47.2000 and could now be sold at a rate of US\$1 = Ksh50.6000. (5 Marks)

QUESTION FOUR

- a) Show your understanding of the following terms as used in financial risk management
- i. Moral hazard (2.5 Marks)
 - ii. System risk (2.5 Marks)
- b) Evaluate five (5) factors that lead to volatility of interest rates (10 Marks)

QUESTION FIVE

- a) Illustrate five ways in which derivatives can be applied in real life (10 Marks)
- b) State five (5) steps to perform scenario analysis (5 Marks)

QUESTION SIX

- a) Discuss five (5) ways that International business can reduce risk (10 Marks)
- b) Highlight the factors of geopolitics in business (5 Marks)

