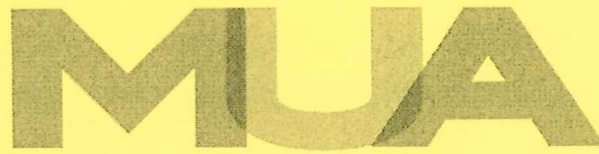


The
Management
University
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
BACHELOR OF COMMERCE

INS 411 : RISK ASSESSMENT CONTROL AND FINANCE

DATE: 29TH NOVEMBER 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:

MWAMBA DRILLERS COMPANY: THORNY RISK MANAGEMENT ISSUES

Mwamba Drillers Company was registered in Kenya as a private limited company six months ago. The company's main object is the drilling of boreholes. The main geographical areas of focus are the arid and semi-arid regions of Kenya, but being a private company, it is open to serve any other clients from other regions. The company has done the necessary set-ups, including hiring some managers and staff for purposes of commencing operations. It has also acquired required machinery.

The managers of Mwamba Drillers Company are not in concord in regard to identification of risks and insurability of such risks. They have not yet agreed on which risks should be insured. In fact one member of the management team has expressed his ignorance regarding the question of whether there exist any uninsurable risks. He thinks that all the company's risks are insurable and should thus be insured. Some other members are of the opinion that there are some risks that the company doesn't need to insure.

Mwamba Drillers Company has not yet put in place a department responsible for risk management. However, you have been appointed as a consultant and advisor to the management of the company. Being acquainted with risk management and insurance matters, you have already identified some serious risks that the company must address.

Required:

- a) Present to the management of Mwamba Drillers Company, two (2) essential functions of risk management. **(4 Marks)**

- b) Explain the term 'pre-loss objectives' and demonstrate to the management of Mwamba Drillers Company, four (4) pre-loss objectives of risk assessment programme. **(9 Marks)**
- c) Appraise six (6) 'requisites of insurability' of business risks that should guide the management of Mwamba Drillers Company on insurance decisions. **(12 Marks)**

QUESTION TWO

- a) Distinguish between 'a priori' and 'a posteriori' probabilities, citing appropriate examples. **(6 Marks)**
- b) Clearly demonstrate the essence and mode of operation of 'future contract'. **(6 Marks)**
- c) List three (3) kinds of 'future contracts'. **(3 Marks)**

QUESTION THREE

- a) Distinguish between 'moral hazard' and 'morale hazard', citing at least one example of each. **(5 Marks)**
- b) Assess the practical applications of four (4) risk handling techniques in business organizations. **(10 Marks)**

QUESTION FOUR

- a) Using an elaborate example, highlight the application of 'Swaps' in the management of international risk exposures. **(4 Marks)**
- b) In the management of interest rate risk, assess the significance of 'Gap analysis' and explain two types of gaps. **(6 Marks)**
- c) Evaluate the significance of 'checklists' as a risk identification tool, citing business applications. **(5 Marks)**

QUESTION FIVE

- a) Compose three (3) typical types of foreign exchange risks that are encountered by Trans-National Enterprises. **(6 Marks)**
- b) Produce six (6) benefits of risk management policy statement to a business firm. **(9 Marks)**

QUESTION SIX

- a) Analyse the features of 'Cap Floor Agreement'. **(5 Marks)**
- b) Describe 'Options' and differentiate between 'American options' and 'European options'. **(4 Marks)**
- c) Assess four (4) determinants of the value of an Option. **(6 Marks)**