



SEMESTER II RESIT EXAMINATION

DEPARTMENT OF MANAGEMENT AND PUBLIC ADMINISTRATION
CBMG 304 RISK MANAGEMENT
3 CREDITS
SESSION: MORNING, EVENING AND WEEKEND
DURATION 3 HOURS

STUDENT ID No.....

INSTRUCTIONS

- SECTION A: MULTIPLE CHOICE – Answer ALL Questions**
- SECTION B: FILL-IN-THE-BLANK – Answer ALL Questions**
- SECTION C: COMPULSORY ESSAY QUESTION**
- SECTION D: CASE STUDIES & ESSAYS– Answer ONLY ONE Question**

Answer ALL Questions into the Answer Booklet provided.

DO NOT TURN OVER THIS PAGE UNTIL YOU ARE TOLD TO DO SO BY THE INVIGILATOR

SECTION A: MULTIPLE CHOICE QUESTIONS – (20 MARK)

Choose the most appropriate response to each of the following questions. Write the alphabet (a, b, c or d) that corresponds to the correct answer into the Answer Booklet.

1. The concept that denotes a potential negative impact on an asset or some characteristic of value that may arise from some present process or future event is termed:
 - A. Disaster
 - B. Hazard
 - C. Risk
 - D. Uncertainty
2. A person who throws litter carelessly on the street without worrying about the risk or dangers involved possess a:
 - A. Moral hazard
 - B. Morale hazard
 - C. Physical hazard
 - D. Social hazard
3. Flood, fire outbreak and a car crash are examples of:
 - A. Speculative risk
 - B. Systematic risk
 - C. Pure risk
 - D. Physical risk
4. Which of the following is **NOT** an example of insurable peril?
 - A. E-commerce
 - B. Terrorism
 - C. Theft
 - D. Vandalism
5. Risks that can be reduced through risk sharing or pooling agreements are called:
 - A. Diversifiable risks
 - B. Non-diversifiable risks
 - C. Non-insurable risks
 - D. Systematic risks
6. A manufacturer holds a large amount of stock in the form of finished products in its warehouse. What type of risk does the company face?
 - A. Default risk
 - B. Equity risk
 - C. Interest rate risk
 - D. Liquidity risk

7. A risk condition that increases the probability, frequency or severity of a loss is known as:
- A. Catastrophe
 - B. Disaster
 - C. Hazard
 - D. Peril
8. Risks such as theft, grapevine, harassment, insecurity and discrimination originate from this environment:
- A. Cognitive
 - B. Economic
 - C. Social
 - D. Physical
9. Having a fire extinguisher in the car is _____ method of risk control.
- A. Loss prevention
 - B. Loss reduction
 - C. Risk avoidance
 - D. Risk transfer
10. A company has sold one of its old vehicles that keeps breaking down to avoid paying the cost of repairing it. What type of risk control measure is this?
- A. Abandonment
 - B. Avoidance
 - C. Retention
 - D. Transfer
11. Ownership of a part of a corporation that gives control rights to the owner is called:
- A. Bond
 - B. Common stock
 - C. Debentures
 - D. Futures
12. The date a bond will be redeemed after it has run the full term stated in the debt agreement is known as:
- A. Growth
 - B. Maturity
 - C. Par value
 - D. Yield
13. Mr. Boison has invested in a kind of stock that attracts a fixed dividend payable at the discretion of the company's Board of Directors. This kind of stock is called:
- A. Convertible debt
 - B. Secured debt
 - C. Preference stock
 - D. Variable stock

14. In the case of physical assets, the worse loss that is likely to occur in a time period or because of a single event is termed the:
- A. Possible Maximum Loss
 - B. Probable Maximum Loss
 - C. Value at Risk
 - D. Variable Maximum Loss
15. Which of the following risks is **NOT** universal and therefore does not affect everyone?
- A. Death
 - B. Ill health
 - C. Old age
 - D. Unemployment
16. Which of the following is **NOT** one of the three elements that should be present in a typical financial asset?
- A. A promised payment
 - B. A right to another asset
 - C. A right to a physical asset
 - D. Control rights
17. Dr DeSousa's 2010 Toyota Corolla which he purchased brand new five years ago got totally destroyed in the fire accident. He is assessing the loss amount by searching the internet to find out how much a similar 2010 Toyota Corolla is currently being sold for. Dr DeSousa is using _____ in the valuation process.
- A. Book Value
 - B. Market Value
 - C. Replacement Cost New
 - D. Value Added
18. Having a comprehensive insurance, Dr DeSousa's insurance company decides to pay him the cedi equivalence of a brand new 2015 model of his car but deducted 20% of the value to account for Dr DeSousa's usage of the car and for wear and tear. Which valuation method is the insurance company using?
- A. Market Value
 - B. Market Value Less Depreciation
 - C. Replacement Cost New
 - D. Replacement Cost New Less Depreciation
19. A risk manager is trying to assess the loss frequency of human assets in the firm. Which of the following methods will not be included in the calculation?
- A. Human life value
 - B. Mortality rate
 - C. Number of accidents and injuries
 - D. Number of hospital visits by employees

20. UT Holdings owns an insurance firm that insures the entire assets of the UT Holdings and those of other private and corporate bodies. This type of insurance whereby an insurer is owned by the insured is known as:
- A. Absorption insurance
 - B. Captive insurance
 - C. Insurance transfer
 - D. Self-insurance

SECTION B: FILL-IN-THE-BLANK. (20 MARKS)

Complete the following statements with the appropriate word or phrase.

1. The process by which an organisation is able to learn of the areas in which it is exposed to risk call _____
2. A business firm which decides against developing a new product after market survey revealed negative public response is practicing _____
3. The type of risk control tool that causes some entity other than the one experiencing the loss to bear the burden of the loss is referred to as _____
4. Mason (1995) suggests three dimensions of risk financing including: hedging, diversification and _____
5. An arrangement under which some other entity other than the entity experiencing the loss bears the direct financial consequences is called _____
6. Financial transaction in which one asset is held to offset the risk of holding another asset. Here the gains on one contract are used to offset losses on another transaction. Is called _____
7. A financial instrument acknowledging a customer's obligation to pay, backed by a bank in the seller's country is referred to as _____
8. A firm's physical assets that relates to land and its apartment structures or attachments is termed _____
9. The asset valuation method which uses the price that a willing seller will accept and a willing buyer will pay for the property in a regular transaction on the date the property is valued is known as _____
10. The price quoted on the official receipt issued at the time the property was purchased is referred to as _____

11. List three physical perils that you know _____ and _____.
12. Risk can be thought of as arising in two ways namely _____ and _____.
13. The presence of "doubt in our ability to the future outcomes of current actions" referred to as _____.
14. The type of futures or forward contract in which a firm enters an agreement to exchange a series of securities of payments such as loan repayments where the two loans are denominated in different currencies is called _____.
15. The type of contract that provides the holder with a right but not an obligation to buy or sell an asset at a stated price is referred to as _____.
16. All being equal, the state of health significantly below the state typical of an individual's age category is referred to as _____.
17. Unsecured debt securities are often called _____.
18. A debt security that can be exchanged for a fixed number of shares of a common stock is called _____.
19. The type of property that is movable and not fixed to land is referred to as _____.
20. Kofi is contemplating intentionally driving his Toyota Corolla on which he has a comprehensive insurance into a ditch so as to collect a hefty insurance claim to buy a 4X4. Kofi is said to be faced with a _____.

SECTION C: COMPULSORY QUESTION ON INDUSTRIAL VISIT (30 MARKS)

- (a) With reference to the company you visited in course of the Risk Management programme of study, discuss the core business activities of the firm (5Marks).
- (b) Conduct risk analysis on the firm and identify two major risk exposures each to the company's physical, human and financial assets (5Marks).
- (c) Identify and discuss the sources of the risk exposures, the hazards and the perils associated with these risks (5Marks).
- (d) Distinguish between direct and indirect outcomes and evaluate the positive and the negative outcomes of these risk exposures on the firm and its stakeholders (5Marks).
- (e) Discuss the risk management techniques / tools that the company uses to manage the risks identified in (b) above (5Marks).

- (f) What advice will you give the firm on the risk management measures to adopt to maximise value and / or minimize loss so as to achieve organisational goals? (5Marks).

SECTION D: CASE STUDIES & ESSAYS. ANSWER ONLY ONE QUESTION. EACH QUESTION CARRIES 30MARKS

1.

- (a) The Bulk Oil Distributors buy futures contract of 1,000 barrels of crude oil in May, 2017 at \$55.00 per barrel based on the current crude oil price of \$55 a barrel to be delivered May 2018. If the crude oil price changes to \$58 per barrel, what is the expected gain? **5 Marks.**
- (b) If BENOTA Ltd invests an amount of GhC2000.00 par value in a bond providing a 25% coupon rate payable semi-annually, what is the expected amount that BENOTA Ltd will receive after three years? **5 Marks**
- (c) An employee who is expected to retire at age 60 dies at age 40, the employee's annual salary is Ghc60,000; on which income taxes of GhC10,000 are paid. The remaining Ghc50,000 is the annual amount available to finance the personal consumption of the employee and the dependents. If Ghc20, 000 is spent on the employee's personal consumption, the remaining Ghc30,000 is available each year to finance the consumption of the dependents. If the dependents would have received the Ghc30,000 each year until retirement, what is the present value of income loss as a result of the death at 5% rate of interest? **10 marks.**
- (d) Briefly distinguish between sum assured and risk premium. **5 marks**
- (e) Briefly outline five (5) causes of risk aversion that you know. **5 marks**

2. "Insurance is one of the best instruments in the development of the modern society. It is that which distinguishes a modern society from a primitive one" (Edwards, 1989).

- (a) Define insurance and explain the law of large numbers and discuss its implications for an insurance system and society as a whole (10Marks).
- (b) Explain the process of risk pooling and loss sharing (5Marks).
- (c) With the help of an example, explain why it is necessary to discriminate in order to pool (5Marks).
- (d) Explain why it is important to provide correct and complete information to insurers when buying an insurance product. What are the dangers of providing false information to an insurance company? (5Marks)
- (e) Using examples, explain the concept of "Adverse Selection". How can insurers reduce or protect themselves against adverse selection? (5Marks).