

CENTRAL UNIVERSITY



SEMESTER II RESIT EXAMINATION: 2020/2021

DEPARTMENT OF MANAGEMENT STUDIES

COURSE CODE: CBMG 304

RISK MANAGEMENT

LEVEL 300

INSTRUCTIONS

Multiple Choice = 50 Questions

True/False = 50 Questions

Answer ALL Questions

All Questions Carry Equal Marks

Time: 120 Minutes

SECTION A: MULTIPLE CHOICE QUESTIONS – 50 MARKS

1. Economic depression which affects all businesses and all assets of a business is a type of:
 - A. Diversifiable risk
 - B. Insurable risk
 - C. Systematic risk
 - D. Unsystematic risk

2. A present or future event that can potentially have a negative or positive impact on an asset or its value is termed:
 - A. Risk
 - B. Uncertainty
 - C. Disaster
 - D. Hazard

3. Risk occurs because of _____ in predicting future events.
 - A. Doubt
 - B. Certainty
 - C. Confusion
 - D. Disaster

4. Flood, fire outbreak and a car crash are examples of:
 - A. Speculative risk
 - B. Pure risk
 - C. Physiological risk
 - D. Systematic risk

5. Risks that can be reduced through risk sharing or pooling agreements are called:
 - A. Diversifiable risks
 - B. Non-symptomatic risks
 - C. Non-diversifiable risks

- D. Systematic risks
6. The risk management style that takes a holistic and strategic approach to managing risk is:
- A. Corporate Risk Management
 - B. Integrated Risk Management
 - C. Traditional Risk Management
 - D. Enterprise Risk Management
7. Risk associated with a company's daily work related activities is termed:
- A. Operational risk
 - B. Organisational risk
 - C. Ergonomic risk
 - D. Capital risk
8. Businesses and individuals who borrow money face this risk:
- A. Default risk
 - B. Financial risk
 - C. Investment risk
 - D. Capital risk
9. The risk attached to assets that can be easily sold or traded for money is termed:
- Capital risk
 - Liquidity risk
 - Market risk
 - Investment risk
10. Volatility or changes in stock prices is termed:
- Business risk
 - Commodity risk
 - Commercial risk

- Market risk

11. Disaster mitigation activities are classified into two main categories namely:

- Diversifiable and non-diversifiable
- Natural and man-made
- Response and recovery
- Structural and non-structural

12. Which of the following is **not** one of the classifications of sources of disaster?

- Geological and ecological sources
- Man-made sources
- Supernatural and spiritual sources
- Weather and climatic sources

13. Which of the following is **not** an example of geological sources of disaster?

- Earthquakes
- Floods
- Landslides
- Volcanic eruptions

14. The lack of capacity of a community to anticipate, prevent, mitigate or recover from the impact of a hazardous event is termed:

- Exposure
- Liability
- Poverty
- Vulnerability

15. Disaster mitigation activities are classified into two main categories namely:

- Diversifiable and non-diversifiable
- Natural and man-made
- Response and recovery

- Structural and non-structural

16. The amount of money an individual or a firm pays for an insurance policy is known as:

- Insurance benefit
- Insurance cost
- Insurance premium
- Insurance price

17. The process of underwriting a risk by evaluating and classifying it with similar risks based on the likelihood of making a claim is termed:

- Adverse selection
- Discrimination
- Loss sharing
- Risk pooling

18. Which of the following is **not** one of the necessary conditions for insurance to work?

- Premium payment
- Contractual agreement
- Interest payment
- Pool of resources

19. Which of the following is **not** an example of insurable peril?

- E-commerce
- Terrorism
- Theft
- Vandalism

20. The COVID-19 corona pandemic is an example of:

- Insurable human peril
- Insurable natural peril
- Non-insurable human peril

- Non-insurable natural peril

21. Corruption and civil unrest are examples of:

- Insurable human perils
- Insurable natural perils
- Non-insurable human perils
- Non-insurable natural perils

22. Accidents and negligence are examples of:

- Insurable human perils
- Insurable natural perils
- Non-insurable human perils
- Non-insurable natural perils

23. The process of underwriting a risk by evaluating and classifying it with similar risks based on the likelihood of the adverse event occurring and claims being made is termed:

- Adverse selection
- Discrimination
- Loss sharing
- Risk pooling

24. The phenomenon where an insurer charges lower rates and attracts clients with higher-than-expected loss is termed:

- Adverse selection
- Differentiation
- Discrimination
- Promotion

25. The advantages of buying insurance include the following **except**:

- Reduced uncertainty
- Reimbursement of eligible expenses

- Enjoyment of insurance proceeds
- No benefits from loss control

26. The concept which states that the bigger the pool of risk exposures insured, the stronger the guarantee for paying claims is called:

- The law of big numbers
- The law of insurance
- The law of large numbers
- The law of risk pooling

27. Work environments fraught with bullying, sexual harassment or work overload pose:

- Moral hazard
- Morale hazard
- Physiological hazard
- Psychological hazard

28. 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:

- Convertible debt
- Secured debt
- Preference stock
- Variable stock

29. 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:

- Possible maximum loss
- Probable maximum loss
- Value at risk
- Variable maximum loss

30. A firm's physical assets that relate to land and its appurtenant structures or attachments is termed:

- Legal asset
- Personal property
- Physical asset
- Real estate

31. 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:

- Forwards
- Futures
- Options
- Sureties

32. 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:

- Book value
- Market value
- Replacement value
- Replacement cost new

33. All being equal, the state of health significantly below the state typical of an individual's age category is referred to as:

- Old age
- Pension
- Poor health
- Sickness

34. Unsecured debt securities are often called:

- Collateral
- Convertibles

- Debentures
- Derivatives

35. The cause of loss or damage to an asset due to exposure to risk is termed:

- Disaster
- Hazard
- Peril
- Risk

36. Work environments fraught with bullying, sexual harassment or work overload pose:

- Moral hazard
- Morale hazard
- Psychological hazard
- Physical hazard

37. A financial transaction whereby one asset is held to offset the risk of holding another asset:

- Collateral
- Diversification
- Hedging
- Insurance

38. Old age or the situation where one has lived past their productive years is known as:

- Excessive longevity
- Net Consumer
- Net producer
- Retirement

39. A manufacturing firm which decides against developing a new product after market survey revealed negative public response is practicing:

- Avoidance
- Abandonment
- Loss prevention
- Loss reduction

40. 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:

- Risk avoidance
- Risk financing
- Risk retention
- Risk transfer

41. A financial instrument acknowledging a customer's obligation to pay, backed by a bank in the seller's country is referred to as:

- Collateral credit
- Futures creditor
- Letter of credit
- Secured creditor

42. A firm pays the medical bills of its staff directly out of an earmarked risk financing account. This is an example of:

- Risk avoidance
- Risk prevention
- Risk retention
- Risk transfer

43. A firm pays the medical bills of its staff directly out of an earmarked risk financing account. This is an example of:

- Risk avoidance
- Risk prevention
- Risk retention
- Risk transfer

44. GBEWA Construction Ltd. has its own hospital on site which takes care of the health needs of its employees and their dependents. This type of risk financing method is known as:

- Retention
- Captive

- Insurance
- Transfer

45. A risk financing arrangement under which some other entity other than the entity experiencing the loss bears the direct financial consequences is called:

- Avoidance
- Control
- Insurance
- Retention

46. A financial instrument acknowledging a customer's obligation to pay, backed by a bank in the seller's country is termed:

- Collateral credit
- Futures creditor
- Letter of credit
- Secured creditor

47. Which of the following is **not** one of the elements in the risk treatment cycle?

- Risk control
- Risk financing
- Implementation
- Mitigation

48. Which of the following is **not** one of the determinants of risk retention?

- Frequency and severity of expected losses
- Availability of other effective treatment methods
- Cost and availability of insurance
- Failure to identify potential risk exposure

49. A firm pays the medical bills of its staff out of an earmarked risk financing account. This is an example of:

- Risk avoidance
- Risk prevention
- Risk retention
- Risk transfer

50. Disaster refers to the presence of _____ and _____

- Hazard and vulnerability
- Dangerous and hazardous chemicals
- Risk and vulnerability
- Nuclear waste and air pollution

SECTION B: TRUE OR FALSE – 50 MARKS

51. Financial transaction in which gains from one asset are used to offset losses from another is called hedging:

- True
- False

52. Economic depression which affects all businesses and all assets of a business is termed diversifiable risk:

- True
- False

53. A risk situation where there is a potential chance of both of gain and loss is termed speculative risk:

- True
- False

54. A risk condition that increases the probability, frequency or severity of a loss is known as disaster.

- True

False

55. Accidents and theft are examples of insurable peril.

True

False

56. Both terrorism and vandalism examples of non-insurable risks.

True

False

57. Risks that can be reduced through risk sharing or pooling agreements are insurable risks:

True

False

58. A manufacturer hold stock of finished products in its warehouse. The company face equity risk.

True

False

59. Having a fire extinguisher in the car is both a loss reduction and loss prevention method of risk control.

True

False

60. For physical assets, the worse loss likely to occur in a time period or a single event is termed the possible maximum loss.

True

False

61. Tobinco Pharmaceuticals withdrew some of its products from the market due to unpredictable side effects. This risk control method is known as risk avoidance.

True

False

62. A licensed manufacturer has stopped the mass production of face masks due to flooding of the market by several unlicensed producers. This is an example of abandonment.
- True
 - False
63. Ownership of a part of a corporation that gives control rights to the owner is called common stock:
- True
 - False
64. Assessing the present value of a similar asset purchased in the past by searching online for the current price is called replacement cost new method of asset valuation.
- True
 - False
65. The method of valuing assets by first assessing the cost of replacement and then deducting an estimated allowance of physical wear and tear is known as market value:
- True
 - False
66. Number of accidents and injuries at work are common methods of assessing severity of human asset loss:
- True
 - False
67. Ownership of financial assets does not typically involve ownership of a physical asset:
- True
 - False
68. Debt instrument holders have no rights other than control and voting rights:
- True
 - False
69. Issuers of Bonds are legally entitled to receive payment of agreed interest on debt instruments issued.
- True
 - False
70. Subordinated debts are debt instruments which are least prioritized and the last to be paid in case of bankruptcy or liquidation.
- True
 - False

71. Debt security that can be exchanged for company shares is called convertible debt:
- True
 - False
72. Yield date is the date a bond is redeemed after it has run the full term stated in the debt agreement.
- True
 - False
73. The date a bond is redeemed after expiry of the debt agreement is known as maturity.
- True
 - False
74. Treating risk by deciding not to commence or proceed with an activity is known as risk avoidance:
- True
 - False
75. The process of finding out areas in which a firm is exposed to risk termed risk assessment:
- True
 - False
76. Legal ownership of a physical asset can only be obtained by purchasing the particular asset:
- True
 - False
77. One benefit a company derives from listing on the stock exchange is receiving dividend:
- True
 - False
78. A debt covenant is usually included in debt contracts to protect borrowers:
- True
 - False
79. The kind of stock that attracts a fixed dividend is termed preference stock:
- True
 - False

80. For financial assets, the worst-case scenario cedi (dollar) value loss as a result of exposure to a specific risk is called probable maximum loss.
- True
 - False
81. In risk management, premature death occurs when a young child dies.
- True
 - False
82. A condition that creates or increases the likelihood of a loss or loss amount is called risk.
- True
 - False
83. Risk occurs because of doubt in our ability to predict future outcomes of events:
- True
 - False
84. Fire, premature death and interest rate risks are examples of unsystematic risk:
- True
 - False
85. Risks that cannot be reduced through risk pooling or loss sharing agreements are diversifiable risks:
- True
 - False
86. The risk attached to holding stock of finished products or inventory is termed inventory risk.
- True
 - False
87. Risk where both the probability of the event occurring and possible outcomes are known is called objective risk.
- True
 - False
88. The condition where an individual is fearful of taking risks is known as risk aversion:
- True
 - False

89. Insurance is a risk control tool:
- True
 - False
90. A gopher or a person who does not engage in risky venture, buy insurance or lack aware of risk is said to be risk neutral:
- True
 - False
91. The type of risk which results solely in a loss without any chance of a gain is called pure risk:
- True
 - False
92. Fire, earthquake and explosion are all examples of natural perils:
- True
 - False
93. Indiscriminate dumping of garbage on the street poses moral hazard:
- True
 - False
94. Insurance fraud is an example of morale hazard:
- True
 - False
95. Providing health and safety training for a firm's operational staff is a risk avoidance method of treating risk.
- True
 - False
96. Negligent, careless and reckless acts are examples of human perils.
- True
 - False
97. Interest rate, unemployment and inflation are examples of economic perils:
- True
 - False

98. Examples of financial assets include bonds, loans, money and mortgage:

- True
- False

99. One major risk associated with holding financial assets is theft and embezzlement.

- True
- False

100. One risk of holding debt instruments is the possibility of the holder's default in repayment:

- True
- False