



END OF SEMESTER II EXAMINATION: 2021/2022

DEPARTMENT OF MANAGEMENT STUDIES

COURSE CODE: CBMG 304

RISK MANAGEMENT

LEVEL 300

DURATION: 2½ HOURS

STUDE

SECTION A: MULTIPLE CHOICE – Answer ALL Questions

SECTION B: FILL-IN-THE-BLANK – Answer ALL Questions

SECTION C: TRUE / FALSE – Answer ALL Questions

SECTION D: COMPULSORY QUESTION FOR 20 MARKS

SECTION E: ESSAY – Answer ONLY ONE Question from this section

Answer ALL Questions into the Answer Booklet provided.

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

SECTION A: MULTIPLE CHOICE QUESTIONS –ANSWER ALL (20 Marks)

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 possibility that a planned or expected outcome may not be realised and actual results may differ from predicted results is known as:
 - A. Hazard
 - B. Peril
 - C. Risk

D. Uncertainty

2. The first step in the risk management process is _____.
 - A. Avoidance
 - B. Evaluation
 - C. Identification
 - D. Measurement

3. The outcomes of a speculative risk are _____.
 - A. Draw or breakeven
 - B. Gain or no gain
 - C. Loss or no loss
 - D. All of the above

4. Which of the following is essential in the reduction or removal of uncertainty in a business activity?
 - A. Disaster management
 - B. Information management
 - C. Insurance management
 - D. Risk management

5. Risks that can be managed by putting the company's assets into different alternative businesses to spread the risk are called _____.
 - A. Diversifiable risks
 - B. Insurable risks
 - C. Specific risks
 - D. Systematic risks

6. A financial transaction in which one asset is held to offset the risk of holding another asset, or where the gains from one asset are used to offset the losses from another asset is called:
 - A. Collateral
 - B. Diversification
 - C. Hedging
 - D. Insurance

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

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. Valuable Maximum Loss
- D. Variable Maximum Loss

10. A farmland is an example of _____.

- A. Financial asset
- B. Legal asset
- C. Personal property
- D. Real estate

11. 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:

- A. Book value
- B. Discounted new value
- C. Market value
- D. Replacement cost new

12. Work environments fraught with bullying, sexual harassment or work overload pose _____.

- A. Moral hazard
- B. Morale hazard
- C. Psychological hazard
- D. Physical hazard

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

- A. Excessive longevity
- B. Net consumer
- C. Net producer
- D. Retirement

13. 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:

- A. Captive Insurance
- B. Loss prevention
- C. Risk Retention
- D. Risk transfer

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

- A. Risk avoidance
- B. Risk control transfer
- C. Risk financing transfer
- D. Risk retention

15. Which of the following is **not** a type of risk financing method?

- A. Hedging
- B. Insurance
- C. Letters of credit
- D. Loss prevention

16. Disaster refers to the presence of _____ and _____

- A. Danger and vulnerability
- B. Hazard and vulnerability
- C. Peril and vulnerability
- D. Risk and vulnerability

17. Which of the following is **not** one of the laws enacted by government of Ghana that compels employers to safeguard and manage the exposure of the organisation's human assets?

- A. Health and Safety Legislations
- B. The Intestate Law
- C. The Labour Law
- D. The Pensions Act

18. Disasters are classified into the following categories into **except**:

- A. Economic and financial disasters
- B. Geological and Earth movements
- C. Man-made disasters
- D. Weather Related disasters

19. Which of the following is not a Weather-related disaster?

- A. Droughts
- B. Floods
- C. Hurricanes
- D. Landslides

20. Which of the following is not one of the methods of used to prevent or mitigate disasters?

- A. Disaster avoidance and abandonment
- B. Economic diversification
- C. Hazard identification and vulnerability analysis
- D. Political intervention and commitment

SECTION B: FILL-IN-THE-BLANK: ANSWER ALL QUESTIONS (20 MARKS)

Complete the Statement with the appropriate word or phrase

1. The entity which underwrites the risk exposures of others in return for their premium payment is known as _____.
2. The present value of an employee's annual after-tax earnings reduced to reflect personal consumption and inflation which is paid to the employee's family upon the latter's death is termed _____.

3. The process of using the pool of insurance premiums collected from insureds who have not incurred any losses to pay out insurance benefits to affected insureds who have sustained losses is termed _____.
4. The risk that arises from execution of a company's business functions and daily activities is known as _____.
5. Provision of streetlights, construction of dams and barriers, banning smoking and providing training for employees are examples of _____ methods of risk control.
6. In the traditional risk management approach, risk is thought of as _____.
7. A debt instrument which is the least in line of priority when default occurs and the last to be paid after all other debt obligations have been settled is called _____.
8. The risk management approach which considers all risks simultaneously and manages risk in a holistic manner is known as _____.
9. The goal of all risk management is _____.
10. The lowest level of risk where possible outcomes can be identified and the likelihood of consequences known is referred to as _____.
11. An activity, factor or incident that causes loss is known as a _____.
12. The cost incurred for managing risk is termed _____.
13. Irresponsible or reckless behaviour that poses danger to oneself and others without any ulterior motives is termed _____.
14. Mrs. Blankson was driving home from work when he skidded off the road and hits a telephone pole. He spends Ghc 1,200.00 to repair the car and Ghc 300.00 a day to rent a car for three days while his car was being repaired. The Ghc 1,200 was the _____.
15. How much was Mrs. Blankson's time element loss as a result of the accident? _____.
16. An organisation is providing a health and safety training for its operational staff. What type of risk management measure is this? _____.
17. Financial instruments whose value is derived from an underlying physical asset are referred to as _____.
18. A contract that provides the holder with a right to buy or sell an asset at a stated future price without any obligation to buy or sell is termed _____.
19. Madam Rockson purchased government of Ghana bond of Ghc100,000.00 par value at the interest of 15% per annum coupon rate payable semi-annually. How much interest will Madam Rockson receive at the end of the first six months? _____.

20. Name one measure put in place by relevant institutions in Ghana to deal with the risk of old age

SECTION C: TRUE / FALSE –QUESTIONS - ANSWER ALL (20 MARKS)

1. For insurance to be worthwhile, the risk to be insured must be diversifiable.
 - True
 - False
2. Loss to a financial asset can occur without loss or damage to a physical asset.
 - True
 - False
3. Holders of Common Stock have a right to promised payment in the form of periodic dividend payment.
 - True
 - False
4. Insurance is a proactive risk financing mechanism:
 - True
 - False
5. Risk financing transfer can be done through both insurance and non-insurance mechanisms.
 - True
 - False
6. Under an insurance agreement, the insured agrees to reimburse specific loss in return for the insurer's premium payment.
 - True
 - False
7. Risk occurs because of doubt in our ability to predict future outcomes of events.
 - True
 - False
8. An insurance system cannot function effectively without the presence of a pool of resources.
 - True
 - False
9. Regimanuel Estate Company can purchase a Futures Contract from Ghacem against future increases in the price of cement.
 - True
 - False

10. Futures Contracts are only publicly traded in the commodities and exchange market.
- True
 - False
11. For risks that have high frequency and high severity, the best method of treatment is avoidance.
- True
 - False
12. Insurance fraud is a morale hazard.
- True
 - False
13. For risks with low frequency and high severity, the best method of treatment is to buy insurance.
- True
 - False
14. Ceteris paribus, insurance guarantees the preservation of assets and economic value.
- True
 - False
15. It is illegal for insurance companies to discriminate among their clients.
- True
 - False
16. The term "pure risk" refers to those situations in which loss is a certainty and the only outcome of an event exposed to pure risk.
- True
 - False
17. From the perspective of an investor, the most attractive approach to dealing with risks is risk avoidance.
- True
 - False
18. In insurance management, larger risk pools are considered a better guarantee for benefit payment than smaller pools.
- True
 - False
19. For Futures contracts to be valid, the holder must first make full payment for the assets expected to be purchased in the future.
- True
 - False
20. Issuers of Bonds are legally entitled to receive promised payment of agreed interest on debt instruments issued.

SECTION D: COMPULSORY QUESTION ON INSURANCE (20 MARKS)

- a) What do you understand by **insurance** as a concept in Risk Management? (4 Marks).
- b) What is the "Law of Large Numbers"? Explain why insurers rely on the Law of Large Numbers in conducting business (4 Marks).
- c) What is "discrimination" in insurance and why is it necessary to discriminate in order to pool? (4 Marks).
- d) Using appropriate examples, discuss **two** benefits and **two** costs of insurance to society (4 Marks).
- e) With the help of relevant examples, explain the concept of "Adverse Selection". How can insurers reduce or protect themselves against adverse selection? (4 Marks).

SECTION E: ANSWER ONLY ONE QUESTION FOR 20 MARKS EACH.

1.
 - (a) What do you understand by Disaster Management? (4 Marks).
 - (b) With the aid of examples, discuss the three broad categories of Disaster Management (4 Marks).
 - (c) Identify and discuss the four stages of the Disaster Management cycle (4 Marks).
 - (d) Using the four stages examined in (c) above, discuss four main disaster management activities that government and individuals can adopt to manage the recent heavy rainfall and flooding to prevent a major catastrophe as well as mitigate the hazards and reduce the vulnerability of affected communities (4 Marks).
 - (d) Briefly explain three Disaster Management challenges in developing countries and suggest possible solutions to address them (4 Marks).
2.
 - a) Give and explain **two** reasons why employers and Risk Managers are concerned about risks faced by employees and their household (4Marks).
 - b) Discuss **two** types of risks that the human assets of an organisation are exposed to (4 Marks).
 - c) Using relevant examples, explain how the risks identified in (ii) above are managed by various institutions in Ghana (4 Marks).
 - d) Mr. Thompson, the project manager at GBEWA Construction was expected to retire at age 60 when he died at age 55 in the recent flooding disaster that hit Accra. The company requires your services

to calculate the Human Life Value (HLV) of the diseased using the following information: Mr. Thompson's annual salary is Ghc70,000.00 on which annual income tax of Ghc15,000.00 is paid. If Ghc20,000.00 is spent on the employee's personal consumption:

- i. How much is available to finance the consumption of his dependents for each year? (1 Marks)
 - ii. Calculate the **Present Value** of the total income loss for the remaining 5 years to retirement at 5% interest rate (3 Marks).
 - iii. At the interest rate of 5%, how much will the dependents be paid in the first year? (1 Marks)
 - iv. How much will the dependents receive in the last two years? (3 Marks).
(Please, show working).
3. You and a group of colleagues are considering a vacation tour around the country. You learn from the tour operators that a significant part of the trip must be taken in a commuter plane and a boat ride. Based on that fact, some of the students who are risk averse decided not to go on the trip and rather stay at home. The others excited about the adventure were more than happy to go.
- a. Using examples, explain the concept of risk aversion and state three causes of risk aversion (4 Marks).
 - b. Explain the differing reactions of the two groups. What factors might explain why their decisions differ? (4 Marks)
 - c. Identify and discuss **three (3)** main risks that may be associated with the vacation tour (4 Marks).
 - d. Discuss two hazards and two perils associated with the risks identified in (c) above (4 Marks).
 - e. What risk management techniques should the group which has decided to go on the trip adopt to manage the risks identified in (c) above so as to ensure a successful trip? (4 Marks)