

CENTRAL UNIVERSITY



CENTRAL BUSINESS SCHOOL

DEPARTMENT OF MANAGEMENT STUDIES

SEMESTER I RESIT EXAMINATION: 2022/2023

COURSE CODE: CBMG 304

COURSE: RISK MANAGEMENT

LEVEL: 300

SESSION: MORNING, EVENING, WEEKEND

DATE: MARCH 2023

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: TRUE / FALSE - Answer **ALL** Questions

SECTION D – 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 BY THE
INVIGILATOR**

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SECTION A: MULTIPLE CHOICE QUESTIONS –ANSWER ALL (25 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 concept that denotes a potential negative impact to 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. The risk control tool that causes some entity other than the one experiencing the loss to bear the burden of the loss is called:
 - A. Diversification
 - B. Insurance
 - C. Risk avoidance
 - D. Risk transfer

3. 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

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

5. A risk condition that increases the probability, frequency or severity of a loss is known as:
 - A. Catastrophe
 - B. Disaster
 - C. Hazard
 - D. Peril

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

7. Which of the following is **NOT** an example of insurable peril?
 - A. Accidents

- B. Terrorism
 - C. Theft
 - D. Vandalism
8. Risks that can be reduced through risk sharing or pooling agreements are called:
- A. Diversifiable risks
 - B. Hazard based risks
 - C. Non-diversifiable risks
 - D. Non-hazard-based risks
9. 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
10. Having a fire extinguisher in the car is a _____ method of risk control.
- A. Loss prevention
 - B. Loss reduction
 - C. Risk avoidance
 - D. Risk transfer
11. 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
12. 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
13. A pharmaceutical firm decides against developing Ebola vaccine after learning that the disease will soon be eradicated. This is an example of risk:
- A. Abandonment
 - B. Avoidance
 - C. Retention
 - D. Transfer
14. Ownership of a part of a corporation that gives control rights to the owner is called:
- A. Common stock

- B. Corporate Bond
 - C. Debentures
 - D. Futures
15. Kwabena's 2010 Toyota Corolla which he purchased brand new five years ago got totally destroyed in the flood. 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. Kwabena is using _____ in the valuation process.
- A. Book Value
 - B. Market Value
 - C. Replacement Cost New
 - D. Value Added
16. Having a comprehensive insurance, Kwabena'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 Kwabena's five year usage of the car. 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
17. 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
18. Which of the following is **NOT** one of the elements that may be present in a typical financial asset?
- A. Control and voting rights
 - B. Ownership of a physical asset
 - C. Promised payment
 - D. Right to another asset
19. 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 _____ debt.
- A. Bond
 - B. Secured
 - C. Subordinated
 - D. Debentures
20. Madam Koffie purchased a debt security of Nestle Ghana Ltd which she later exchanged for a fixed number of shares in the company. This type of financial instrument is called _____.

- A. Common stock
- B. Convertible debt
- C. Preference stock
- D. Swap

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

- A. Insurable human peril
- B. Insurable natural peril
- C. Non-insurable human peril
- D. Non-insurable natural peril

22. Corruption and civil unrest are examples of:

- A. Insurable human perils
- B. Insurable natural perils
- C. Non-insurable human perils
- D. Non-insurable natural perils

23. Accidents and negligence are examples of:

- A. Insurable human perils
- B. Insurable natural perils
- C. Non-insurable human peril
- D. Non-insurable natural perils

24. 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:

- A. Adverse selection
- B. Discrimination
- C. Loss sharing
- D. Risk pooling

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

- A. Adverse selection
- B. Differentiation
- C. Discrimination
- D. Promotion

SECTION B: TRUE OR FALSE – 25 MARKS

Write the correct answer into the answer booklet

1. Risk occurs because of doubt in our ability to predict future outcomes of events:
 - True
 - False
2. Fire, premature death and interest rate risks are examples of unsystematic risk:
 - True
 - False
3. Risks that cannot be reduced through risk pooling or loss sharing agreements are diversifiable risks:
 - True
 - False
4. The risk attached to holding stock of finished products or inventory is termed inventory risk:
 - True
 - False
5. Risk where both the probability of the event occurring and possible outcomes are known is called objective risk:
 - True
 - False
6. The condition where an individual is fearful of taking risks is known as risk aversion:
 - True
 - False
7. Insurance is a risk control tool:
 - True
 - False
8. 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
9. The type of risk which results solely in a loss without any chance of a gain is called pure risk:
 - True
 - False
10. Fire, earthquake and explosion are all examples of natural perils:
 - True
 - False
11. Indiscriminate dumping of garbage on the street poses moral hazard:
 - True
 - False
12. Insurance fraud is an example of morale hazard:
 - True

- False
13. Providing health and safety training for a firm's operational staff is a risk avoidance method of treating risk;
- True
 - False
14. Negligent, careless and reckless acts are examples of human perils.
- True
 - False
15. Interest rate, unemployment and inflation are examples of economic perils:
- True
 - False
16. Examples of financial assets include bonds, loans, money and mortgage:
- True
 - False
17. One major risk associated with holding financial assets is theft and embezzlement:
- True
 - False
18. One risk of holding debt instruments is the possibility of the holder's default in repayment:
- True
 - False
19. Financial transaction in which gains from one asset are used to offset losses from another is called hedging:
- True
 - False
20. Economic depression which affects all businesses and all assets of a business is termed diversifiable risk:
- False
 - False
21. A risk situation where there is a potential chance of both of gain and loss is termed speculative risk:
- True
 - False
22. A risk condition that increases the probability, frequency or severity of a loss is known as disaster:
- True
 - False
23. Accidents and theft are examples of insurable peril:
- True
 - False
24. Both terrorism and vandalism examples of non-insurable risks:

- True
- False

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

- True
- False

SECTION C: COMPLETE THE STATEMENT WITH THE APPROPRIATE WORD OR PHRASE – (25 Marks)

1. The risk that arises from execution of a company's business functions and daily activities is known as _____.
2. Provision of streetlights, construction of dams and barriers, banning smoking and providing training for employees are examples of _____ methods of risk control.
3. Risk occurs because of _____ in predicting future events.
4. Government has initiated plans to fully privatise the energy industry leaving energy prices to be determined solely by market forces. Businesses hereby face _____ risk.
5. The lowest level of risk where possible outcomes can be identified and the likelihood of consequences known is referred to as _____.
6. Investors who buy shares on the stock exchange face the risk of the day-to-day fluctuations in a stock's price. This type of risk is called _____.
7. MR. Thompson, a rice farmer who has insured his farm against fire is contemplating intentionally setting fire to the farm due to poor yield so as to collect a hefty insurance claim. This behaviour is an example of _____ hazard.
8. The type of risk management model that takes a holistic approach to managing all of an organisation's risks is termed _____.
9. An activity, factor or incident that causes loss is known as a _____.
10. Irresponsible or reckless behaviour that poses danger to oneself and others without any ulterior motives is termed _____ hazard.
11. An organisation is providing a health and safety training for its operational staff. What type of risk management measure is this? _____

12. Mr. Turkson was driving home from work when he skidded off the road and hits a telephone pole. He spends Ghc850.00 to repair the car and Ghc250.00 to rent a car for the day while his car was being repaired. The Ghc250.00 is the _____ loss while the Ghc 850.00 is the _____ loss.
13. A secured debt which is prioritised over all other debts and is the first to be paid in case of insolvency of the firm is called _____.
14. Financial instruments whose value is derived from an underlying physical asset are referred to as _____.
15. The risks attached to holding financial assets include _____ and _____.
16. UT Insurance is a company that provides insurance coverage to its parent company, UT Bank, UT Holdings and other affiliated organisations. This type of self-insurance is called _____ insurance.
17. A risk that is has low frequency but high severity when it occurs can be treated using these risk treatment methods _____ and /or _____.
18. Nana Ama has given her expensive jewelry and ornaments to her friend Dorothy for safe keeping because she lives in a compound house and fears they might be stolen. Nana Ama is the _____ and Dorothy is the _____.
19. 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 _____.
20. 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 _____.
21. An organisation is providing a health and safety training for its operational staff. What type of risk management measure is this? _____.
22. An unsecured debt is called _____.
23. The risks attached to holding physical assets include _____ and _____.

24. 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 _____.
25. The worst-case scenario credit (dollar) value loss that could occur for a company exposed to a specific set of financial risks is termed _____.

**SECTION D: ANSWER ONLY ONE (1) QUESTION FROM HERE
EACH QUESTION CARRIES 25 MARKS**

1. "Employees are valuable organisational assets and safeguarding these assets is an essential component of risk management" (Williams et. al. 1995).
- Discuss the statement and explain why Risk Managers and most organisations are concerned about risks faced by employees and their households (5Marks).
 - Discuss **three** sources of human asset exposures and potential sources of loss that employees and their households face on account of these exposures (5Marks).
 - Discuss the direct and indirect losses that an organisation incurs as a result of exposures of their human assets (5Marks).
 - What measures do employers, governments and other relevant institutions put in place to deal with human exposures to risk? (5Marks).
 - Explain the concept of Human Life Value and how it is used to manage the risk faced by dependents upon the death of an employee (5Marks).
2. "Insurance is one of the best instruments of sustainability in the development of modern society. It is that which distinguishes a modern society from a primitive one" (Edwards, 1989).
- Define insurance and explain the law of large numbers and discuss its implications for an insurance system and society as a whole (5Marks).
 - Explain the process of pooling and loss sharing (5Marks).
 - With the help of an example, explain why it is necessary to discriminate in order to pool (5Marks).
 - Using examples, explain the concept of "Adverse Selection". How can insurers reduce or protect themselves against it? (5Marks).
 - Discuss **three** advantages and **three** disadvantages of insurance (5Marks).