



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 20th April, 2023
Time: 11.30am –1.30pm

KFI 306 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Warren Buffet is a leading investor in the Newyork stock Exchange. The American economy has going through a period of uncertainty with investors being unable to clearly determine the kind of stocks in which to invest. Suppose a professional financial and risk analyst is to advise Mr.Buffet on three stocks namely A,B and C. The financial analyst has forecast the value of the stocks in the future .The following information relates to the performance of three stock under two economic conditions of the American economy. The portfolio has 50% in stock A and 25% in each of the stocks B and C. The expected return of the portfolio is 8.5%.

State of the economy	Probabilities of the state of the economy	Rate of return if state occurs		
		Stock A Stock C	Stock B	
Boom	.40	10%	15%	20%
Bust	.60	8%	4%	0%

Required:

- Calculate the portfolio's return under the two economic conditions. (6marks)
 - Calculate the portfolio standard deviation. (6marks)
- b) Country X is a large free market economy with sophiscated financial system .More than 3,000 stocks are listed on the main stock exchange .For the past several years the main stock exchange has required that all listed companies publish their annual risk reports as part of the quarterly financial systems. An equity analyst plans to construct a new risk measure using the information contained in the risk reports and financial statements .Its purpose is to produce risk-adjusted returns for all the companies listed in the main stock exchange on a quarterly basis.

Required:

- i) Describe three types of risks that are likely to be found in the companies listed in the stock in exchange in country X. (6 marks)
- ii) Discuss three risk management steps that are likely to be followed by the risk management department in the listed companies in country X. (6 marks)
- iii) Explain three factors that influences risk appetite in those listed companies in country X. (6 marks)

QUESTION TWO (20 MARKS)

- a) Explain four benefits accrued to an institution that practices risk management. (8 marks)
- b) Differentiate between risk appetite and risk attitude. (6 marks)
- c) Briefly explain Harry Markowitz 's modern portfolio theory. (6 marks)

QUESTION THREE (20 MARKS)

Risk transfer involves insurance and non-insurance techniques that transfer the financial consequences of certain specified loss to another party.

- a) Define insurance (2 marks)
- b) Explain characteristics of insurable risk. (6 marks)
- c) Giving examples explain the no-insurance techniques of risk transfer. (6 marks)
- d) Give examples of insurance of insurance covers found in the Kenyan insurance industry that one can employ to mitigate risk. (6 marks)

QUESTION FOUR (20 MARKS)

- a) Explain five challenges faced by risk managers in Kenya. (8 marks)
- b) State the purpose of risk classification. (4 marks)
- c) Polly enterprises adopted a self –insurance for risk financing. Explain four reasons that may have led to this decision. (8 marks)

QUESTION FIVE (20 MARKS)

- a) Differentiate between systematic risk and unsystematic risk. (4marks)
- b) Describe four common mistakes made during Hazard identification(HAZID). (8 marks)
- c) Briefly explain the following concepts used in risk management
 - i) Probability distribution. (2 marks)
 - ii) Subjective risk (2 marks)
 - iii) Self-insurance (2 marks)
 - iv) Expected value (2 marks)