



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF BUSINESS ADMINISTRATION

**UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF COMMERCE/BUSINESS ADMINISTRATION**

BFI 4406: FINANCE RISK MANAGEMENT

END OF SEMESTER EXAMINATIONS

SERIES: AUGUST 2019

TIME: 2 HOURS

INSTRUCTIONS:

You should have the following for this examination

-Answer Booklet, examination pass and student ID

Attempt Question ONE and any other TWO Questions.

Do not write on the question paper

Question ONE(COMPULSARY)

a) Discuss the three generic approaches in risk management process (6 marks)

b) Discuss any four components of systematic risk (8marks)

Madam Kahonzi has an investment capital of Sh.1,000,000. He wishes to invest in two securities, A and B in the following proportion; Sh.200,000 in security A and Sh.800,000 in security B.

The returns on these two securities depend on the state of the economy as shown below:

3 months forward rate

£1: Ksh 155 – 160

Required:

1. Determine the amount required in sterling pound to buy 2 million Kenya shilling
 - At the spot
 - In 3 months time under the forward exchange contract.
2. Compute the amount a customer would get if he were to sell 2 million Kenya currency.
 - At the spot rate
 - In 3 months time under forward exchange contract

c) Discuss ways in which foreign exchange exposure can be managed

(6marks

(Total 20 marks)

Question FIVE

- a) Interest rate risk is the risk arising from changes in the rate of interest of borrowed or invested (including lent) money: Discuss the Sources of Interest Rate Risk? **(8 Marks**
- b) Discuss the following terms **(6marks**
 - i) Credit risk
 - ii) Sovereign risk
 - iii) Default risk

c) Discuss the qualitative methods of Risk Assessment

(6Marks)

(Total 20 marks)