



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BFI 4406 FINANCIAL RISK MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2024

TIME: 2 HOURS

Instructions to Candidates

You should have the following for this examination

Answer Booklet, examination pass and student ID

This paper consists of five questions.

Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

- a) Define the term risk and explain different types of risks. (10 marks)
- b) Explain financial crisis and the types of crises involved. (10 marks)
- c) Explain the principles of risk management. (10 marks)

Question TWO

From the following data calculate the standard deviation (σ) of two companies.

(20 marks)

		Company X	Company Y
State of the economy	Probability of this state occurring	Rate of return if this state occurs	Rate of return if this state occurs
Boom	0.4	80%	20%
Normal	0.2	20%	30%
Recession	0.4	-50%	15%

Question THREE

- a) Identify and explain risk management measures undertaken by an organization. (10 marks)
- b) Explain the aims of regulations. (10 marks)

Question FOUR

In July 2024 a security analyst estimated that the following returns could be expected on the stocks of four large companies.

Companies	Expected Returns £ (K)
A	16%
B	15%
C	22%
D	20%

If we formed a Shs. 200,000 portfolio, investing Shs 50,000 in each stock, calculate the expected portfolio return. (20 marks)

Question FIVE

Explain the following terms.

- a) Risk avoidance. (4 marks)
- b) Risk reduction (4 marks)
- c) Risk retention (4 marks)
- d) Risk acceptance (4 marks)
- e) Risk transfer (4 marks)