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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR**  
**THIRD YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 9<sup>th</sup> December, 2019  
Time: 11.00am – 1.00pm

**KFI 306 – RISK MANAGEMENT**

**INSTRUCTIONS TO CANDIDATES**

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**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE (30 MARKS)**

- a) Individuals and firms perceive risk differently, and this guides their approach to risk management. Giving examples in each, describe the three risk attitudes as identified in risk management. (6 Marks)
- b) Using examples, differentiate between the following terms as used in risk management:
- i) Subjective risk and objective risk (2 Marks)
  - ii) Pure risk and Speculative risk (2 Marks)
- c) For risk management to be effective in its implementation, it must fulfill some conditions. List any three characteristics of risk management. (6 Marks)
- d) It is advisable for all firms to have an operational risk department and adequate staff depending on their size and potential risks. Highlight any four functions of a risk office in this department. (4 Marks)
- e) Highlight any three roles played by a company's board in risk management. (6 Marks)
- f) Information asymmetry arises when two contractual parties possess different amounts of information. Distinguish between the moral hazard and adverse selection. (4 Marks)

**QUESTION TWO (20 MARKS)**

- a) The risk management process is a continuous cycle that ensures all aspects regarding risk are well taken care of. Discuss the steps involved in the risk management process. (10 Marks)
- b) Risk identification is done when a company seeks to establish its exposure to risk. Identify five crucial questions that should be addressed during this process. (10 Marks)

**QUESTION THREE (20 MARKS)**

- a) Insurance ensures that a business minimizes the probability of a risk or loss occurring and is well covered in an eventuality. Briefly explain five principles of insurance. (10 Marks)
- b) Businesses face different risks depending on their business environment. Identify any five categories of risk that firms are exposed to. (10 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Risk measurement deals with determining the potential impact of identified risks. Identify any five methods used in the measurement of risk by firms. (10 Marks)
- b) Failure to properly identify a firm's exposure to risk can be catastrophic both legally and financially. Elucidate on the common mistakes that a risk officer may make that could be costly to the firm. (10 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Enterprise risk management is meant to minimize the effects of risk on an organization's capital and earnings. Identify any five challenges firms encounter during enterprise risk management. (10 Marks)
- b) Risk management aids businesses estimate the extent of their risk exposure and the decision on how to handle the risk or potential opportunity. Explain the various strategies and financial options for managing risk. (10 Marks)