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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2012/2013 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 17th April, 2013
Time: 2.00pm – 4.00pm

KFI 306 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Write short notes on the following;
- i) Basic risk
 - ii) Interest rate risk
 - iii) Operational risk
 - iv) Payment system risk (8 Marks)
- b) Write the different between portfolio and portfolio management. (4 Marks)
- c) A company would like to use the variance analysis in selecting the best machine for operation.
- i) Explain the term variance analysis. (2 Marks)
 - ii) The standard variance for less risk machine is 2.
From the collected data select the best machine to be selected by the company
Machine A: 2, 3, 5, 3, and 5 (5 Marks)
Machine B: 0.5, 1, 1.5, 2, 2.5 (5 Marks)
- d) Sketch a graph showing the relationship between returns and standard deviation (or risk) in risk return trade off. (4 Marks)

QUESTION TWO (20 MARKS)

Discuss any of the following terms in financial decision making process.

- a) Generate Good Alternatives (10 Marks)
- b) Explore the Alternatives (10 Marks)

QUESTION THREE (20 MARKS)

Explain the following risk management theories;

- a) The Prospect Theory (4 Marks)
- b) Modern Portfolio Theory (MPT) (4 Marks)
- c) Using relevant examples explain how each of the above theories would minimize risk in a firm (12 Marks)

QUESTION FOUR (20 MARKS)

Giving relevant examples, explain the following terms as used in risk management.

- a) Risk Aversion. (5 Marks)
- b) The Risk - Return Relationship (5 Marks)
- c) Risk free investment. (5 Marks)
- d) Risk Management Plan. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss four steps to be considered in risk management approach. (8 Marks)
- b) States at least five the assumption made by Harry Markowitz Model on risk management (5 Marks)

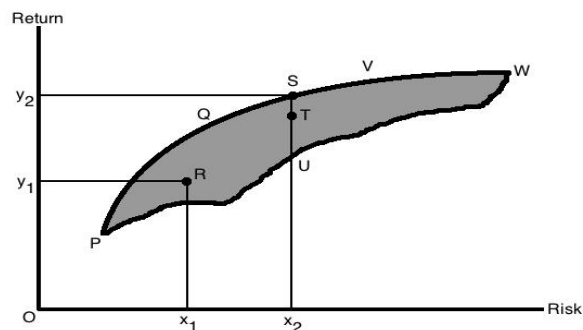


Figure 1: Risk-Return of Possible Portfolios

From the figure above the shaded region pvvw included all the possible securities.

- i) Explain the meaning of efficient portfolios (2 Marks)
- ii) Using the value x_1 and x_2 explain how one would generate a less risk portfolio. (3 Marks)
- iii) Explain how you can use the Harry Markowitz model to select the best portfolio. (2 Marks)