GIET UNIVERSITY, GUNUPUR – 765022

B. B. A (Fifth Semester) Examinations, December' 2022

20BBA506F – Financial Risk Management

Time: 3 hrs. Maximum: 70 Marks

The figures in the right hand margin indicate marks.

PART – A: (Multiple Choice Questions) (1 x 10 = 10 Marks)

Q. 1 Answer ***ALL*** questions

a. Which one of the following statements is true about the risk considered for capital requirements under Basel II?
(i) Credit risk, interest rate risk and foreign exchange risk
(ii) Credit risk, market risk and operational risk
(iii) Credit risk, interest rate risk and political risk
(iv) Credit risk, political risk and country risk

b. In order to calculate capital adequacy ratio, the banks are required to take into consideration, which of the following risks?
(i) Credit risk
(ii) Market risk
(iii) Operational risk
(iv) All of the above

c. Defective electrical wiring that may lead to a fire is an example of a:
(i) Pure risk
(ii) Non-diversifiable risk
(iii) Speculative risk
(iv) Physical hazard

d. Which of the following is a true statement?
(i) Liability risks are risks associated with building calamities
(ii) Theft is a diversifiable risk
(iii) Most individuals in the industrialized countries carry no insurance
(iv) The Law of Large Numbers is used in Risk Pooling

e. Which of the following potential losses is not an example of a pure risk?
(i) Loss of a home by fire
(ii) Theft of a car
(iii) Loss of Rs 10,000 in the stock market
(iv) Theft of your wallet containing Rs 100

f. The ideal insurance system:
(i) Reduces the probability of accidental and fortuitous losses due to increased predictability
(ii) Requires the transfer of a large number of exposures to loss to a pool, where a fund exists in advance of losses having to be paid
(iii) Works best when a large proportion of the participants in the pool submits a claim
(iv) Eliminates all hazards

g. Which of the following sentence/s are true for the Risk management of a project?
(i) Properly undertaken of risk management will increase the likelihood of successful completion of a project to cost, time and performance.
(ii) It involves the initiating further investigations to reduce the uncertainty
(iii) Due to risk management, increase the understanding of project
(iv) All of the above

h. Which of the following method reduces the chance of loss to zero?
(i) Risk transferring
(ii) Risk avoidance
(iii) Risk retention
(iv) Risk reduction

i. Which one of the following risks can be reduced by investing in project or acquiring other firms that have a negative correlation with the earnings of the firm?
(i) Investment risk
(ii) Business risk

(iii) Financial risk (iv) Portfolio risk

j. A pure risk is defined as:

(i) An event that offer no opportunity for financial gain (ii) The chance a loss will occur

(iii) A diversifiable risk (iv) A contingency that increases the chance of a loss

PART – B: (Short Answer Questions) (2 x 10 = 20 Marks)

Q.2. Answer ***ALL*** questions

a. What causes financial risk?

b. What is interest rate risk?

c. Describe purchasing power risk.

d. Differentiate between risk avoidance and risk reduction.

e. Define RMIS.

f. Why variance is criticised as a measure of risk?

g. Find the four criteria that are essential for effective risk management.

h. List out the benefits of ERM.

i. Write the four common types of forecasting models.

j. Define Asset Pricing.

PART – C: (Long Answer Questions) (10 x 4 = 40 Marks)

Answer ***ALL*** questions — Marks

3.*a.* What causes risk? How best you will treat it. — 5

b. Compare and contrast between traditional risk management and enterprise risk management. — 5

(OR)

c. A stock costing Rs 120 pays no dividends. The possible prices that the stock might sell for at the end of the year with the respective probabilities are: — 10

Price (in Rs)	115	120	125	130	135	140
Probability	0.1	0.1	0.1	0.1	0.1	0.1

i) Calculate the expected return

ii) Calculate the standard deviation of returns

4.*a.* What is Financial Risk? Explain various types of financial risk. — 10

(OR)

b. What is Project Risk Management? List the various needs of project risk management. — 10

5.*a.* State the various risks involved in Asset Liability Management. — 10

(OR)

b. What is ERM? Discuss the drivers of an effective ERM System. — 10

6.*a.* How a NDF works? Explain it briefly. — 5

b. What is exchange rate risk? Find its disadvantages. — 5

(OR)

c. Discuss different forecasting models and how it helps the risk manager to visualize the different patterns of data. — 5

d. A US-based multinational wishes to invest surplus funds of USD 10 million. It can invest the same in US corporate bonds and earn a return of 5% p.a. The treasurer is considering another option to invest the same in an Australian corporate bonds and get a return of 10% p.a. The exchange rate today is 1 USD = 50 AUD. After one year, the exchange rate is expected to be 1 USD = 47 AUD. Advise which investment is better. — 5

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