KISII UNIVERSITY

UNIVERSITY EXAMINATIONS
FIRST YEAR EXAMINATION FOR THE AWARD OF THE CERTIFICATE IN ACCOUNTING AND FINANCE
FIRST SEMESTER 2023/2024
[AUGUST-DECEMBER, 2023]

CIAF 0114: FINANCIAL RISK MANAGEMENT

STREAM: Y1 S1   **TIME: 2 HOURS**

DAY: THURSDAY, 9.00 – 11.00 A.M.   **DATE: 30/11/2023**

INSTRUCTIONS
1. *Do not write anything on this question paper.*
2. *Answer Questions ONE and any other THREE Questions*

QUESTION ONE :(25 MARKS)

1, (a) Define the following;

    i)   Financial risk
    ii)   Liquidity risk
    iii)   Individual risk   (6marks)

b) Highlight the benefits of Risk Management.   (8marks)

c) Aninvestor is considering the two projects A and B. the cashflows are not certain but probabilities can be assigned as below;

Cash flows expected of the firm

State of nature	probability	A	B
High demand	0.2	9,000	6,000

Moderate demand	0.6	6,000
6,000		
Low demand	0.2	3,000
6,000		

Required;

Determine which of the two projects he should invest in. assume the investor is risk averse. (11marks)

2. a) Explain the term sensitivity analysis as used in financial risk management
(4marks)

 b) State the steps involved in using sensitivity analysis (7marks)

c) Explain the limitations of scenario analysis (4marks)

3. a) highlight the advantages of simulation analysis as a tool of risk analysis.

(8marks)

 b) Explain three common methods that investment professionals use to analyze risks associated with long-term investments. (7marks)

4. a) Explain the causes of risk (10marks)

   b) Simulation analysis provides information that may be used for developing the probability profile of a criterion of merit by randomly combining values of variables which are bearing on the chosen criterion. State the steps involved in simulation analysis (5marks)

5.a).Define inflation (3marks)

  b). Explain five types of inflation (8marks)

  c). Distinguish between hard capital rationing and soft capital rationing

(4marks)