THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

JANUARY – APRIL 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR / CITY CAMPUS PROGRAMME

CFI 312: RISK AMANAGEMENT

Date: April 2016	Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1. Fly 360 is a new airline incorporated in Kenya to offer low cost air travel within the East Africa region. You have been appointed the risk manager of the airline.

Required:
a) Explain to the management what your role is as the risk manager. **(6 marks)**
b) Explain the steps you will go through in the risk management process.
(6 marks)
c) Identify the specific business risks facing the airline. **(12 marks)**
d) Recommend risk control measures for the risks. **(6 marks)**

Q2. a) Using relevant examples, explain how risk creates an economic burden.
(10 marks)

   b) Discuss the practical issues to be considered while identifying direct and indirect losses for property and liability risk. **(10 marks)**

Q3. a) The THREE major risk management methods include loss control, loss financing and internal risk reduction. Discuss. **(12 marks)**

   b) Using relevant examples, differentiate between subjective and objective risk. **(8 marks)**

ISO 9001:2008 Certified by the Kenya Bureau of Standards

Q4. a) Pooling arrangements provide a major example of how risk is reduced through diversification. Explain. **(6 marks)**

b) Tommy and Dolly are each exposed to the possibility of a motor damage in the coming year. Assume each has a 20% chance of accident that will cause a loss of $1000 and an 80% chance of no accident. Also assume that their accident losses are uncorrelated.

Required:

i Sketch and explain a reasonable probability distribution of expected motor damage losses. **(4 marks)**

ii Show the probability distribution of damage costs paid by each with the pooling arrangement. **(4 marks)**

iii Calculate the standard deviation with the pooling arrangement. **(4 marks)**

iv Comment on your answer in (iii) above. **(2 marks)**

END