DEPARTMENT OF BUSINESS MANAGEMENT AND ECONOMICS

UNIVERSITY REGULAR EXAMINATIONS

2013 /2014 ACADEMIC YEAR

3RD YEAR 2ND SEMESTER EXAMINATIONS

(MAIN EXAMINATION)

FOR THE DEGREE OF BACHELOR OF

BUSINESS MANAGEMENT

COURSE CODE: BBM 336

COURSE TITLE: FINANCIAL RISK MANAGEMENT

DATE: 23RD APRIL 2014   **TIME:** 2:00P.M. – 5P.M.

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INSTRUCTIONS TO CANDIDATES:

- Answer question ONE in section A (Compulsory) and any other THREE questions in Section B.

SECTION A.

QUESTIONS ONE (COMPULSORY)

a) Define risk, name and explain types of risk. (10mks)

b) The probability distribution of the rate of return on a stock is given below:-

State of the Economy	Probability of Occurrence	Rate of Return
Boom	0.30	40%
Normal	0.60	20%
Recession	0.10	10%

Calculate is the standard deviation of return? (15mks)

QUESTIONS TWO

Write short notes on the following:-

a) Forward contract (5mks)
b) Systematic risk (5mks)
c) Covariance (5mks)

QUESTION THREE

Explain the meaning of the following

a) Beta (3mks)
b) Security market line (SML) (3mks)
c) Firm specific risk (3mks)
d) Swap contract (3mks)
e) Port folio (3mks)

QUESTION FOUR

Explain the meaning of the Capital Asset Pricing Model and cite its basic assumptions and limitations
(15mks)

QUESTIONS FIVE

Consider two investments, A and B each having the following investment characteristics:

Investment	Expected Return(%)	Proportion
A	10	
B	20	

Required:-

Compute the expected return of a part folio of the two assets. (15mks)