REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

BACHELOR OF COMMERCE HONOURS DEGREE IN BUSINESS MANAGEMENT

RISK MANAGEMENT & POLICY

HBUM 403

PART 4 SEMESTER 1

Total Marks [100]

DATE: APRIL 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has ***six (6)*** questions
2. Answer question ***one (1)*** and ***any*** other **three (3)**
3. Each question carries ***25 marks***
4. Start each question on a new page

1. (a) Analyse the principles of risk management and how they can be applied in a business context. [15]

   (b) Examine the allocation of capital to risk management in Zimbabwe. [10]

2. Blantyre Corporation has set aside $20 million to be invested in an insurance business for two years and its cost of capital is 20%p.a. There is however a 75% chance of a recession in the first year of investment. If this happens net operating cash flows of the fund will be $8 million. However, in the event of there being no recession in the first year, net cash flows will be $12 million. If there is a recession in the first year, there is a 60% chance of another recession in the second year leading to net operating cash flows of $6 million. However, a recession in year 1 followed by no recession in year two will lead to net cash flows of $10 million. It is also projected that if there is no recession in year 1, there is a 40% chance of a recession in year two giving rise to net cash flows of $10 million. However, in the absence of recessions in years 1 and 2, net cash flows to be realized by the company will be $16 million. Evaluate the viability of the projected business.

   Required:

   Comment on your result. [25]

3. Creighton Logistics intends to invest in two possible capital projects, A and B. The table below summarizes the possible states of the economy to be faced by the corporations, their probabilities and the projected returns to the two capital projects, A and B if they are to be undertaken:

	Return		
	Security A	**Security B**	**Probability**
Scenario			
Depression	10%	6%	40%
Boom	13%	11%	10%
Normal	11%	14%	50%

The market participant invests 40% of the portfolio in security A and the remaining 60% in security.

a. Calculate the expected return and standard deviation of each of the investments. [5]
b. Compute the covariance and correlation coefficient of the two investments. Interpret your answers. [5]
c. Determine the coefficient of variation (CV) of each investment and explain your findings. [5]
d. Evaluate the return and standard deviation of the portfolio of the two investments. Interpret your results. [5]
e. Comment on the investment decisions that rational and risk averse investors would make based on the results of the two investments above. [5]

4. With the aid of practical examples, discuss how the application of risk management in decision-making may help managers make informed decisions in the face of uncertainty. [25]

5. Citing relevant examples, examine the key components and tools that risk analysts should utilize within the risk management process and framework of an organization. [25]

6. Citing practical examples, explain the influence of the risk management process on the growth and development of a firm. [25]

END OF PAPER