PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE

END TERM EXAMINATION – ONLINE

DEPARTMENT: BUSINESS

COURSE CODE: CFN 402

COURSE TITLE: FINANCIAL RISK MANAGEMENT

Time: 2 HOURS

Instructions

•*Read all questions carefully before attempting.*

•*Question ONE is COMPULSORY.*

•*Answer ANY THREE questions out of the remaining FIVE*

QUESTION ONE (COMPULSORY)

a) Define financial risk management **(2 marks)**

b) Discuss how headline risk affects an organization **(2 marks)**

c) Highlight any four factors that distinguish modern economies from past economies in terms of risk management

(2 marks)

d) Explain how a derivative can provide gearing benefit to an organization **(2 marks)**

e) Describe any **one** derivative that a trader will use if they believe that a share price will decrease. **(2 marks)**

QUESTION TWO

a) Highlight the similarity between a strangle and a straddle **(2 marks)**

b) Differentiate straps from strips **(4 marks)**

c) Discuss the importance of the clearing house when trading in futures **(4 marks)**

QUESTION THREE

a) Outline **three** advantages of swaptions over ordinary swaps **(3 marks)**

b) When a swap contract is initiated, at least one of the cash flows is determined by an uncertain variable. Highlight any **three** of those uncertain variables. **(3 mark)**

c) Explain any **two** ways in which credit default swaps (CDS) contributed to the financial crisis of 2007 - 2008 **(4 marks)**

QUESTION FOUR

a) State any **three** factors that influence the level of market interest rates. **(3 marks)**

b) Several theories have been advanced to explain how exchange rates are determined. Highlight any **three** theories. **(3 marks)**

c) Explain **two** importance of the yield curve **(4 marks)**

QUESTION FIVE

a) Distinguish absolute risk from volatility risk **(2 marks)**

b) Outline the **three** main ways through which foreign exchange risk arises **(3 marks)**

c) Giving an example, explain how an organization can be exposed to commodity quantity risk. **(5 marks)**

QUESTION SIX

a) Discuss how you can use the knowledge you have gained from this unit to help an organization manage its financial risk exposure. **(4 marks)**

b) Briefly describe the **three** main types of interest rate options **(6 marks)**