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DMI-ST.EUGENE UNIVERSITY
DEGREE EXAMINATION – DECEMBER – 2022

SEM: VI 551MG65 RISK MANAGEMENT THEORY AND PRACTICE

Time: 3 Hours Max. Marks: 100

Answer any Five questions (5 x 20 = 100 Marks)

1. a) Briefly discuss the risk management process. (6 Marks)

   b) Discuss the factors that influence the market interest rates. (6 Marks)

   c) The bank of Zambia, reduces the base rate of interest from 10% to 8% and also the reserve ratio from 10% capitalization for all commercial banks to 5%. What are the risk implications of these reductions to individual house hold savers as well as investors seeking capital to borrow? (8 Marks)

2. a) What is Value at risk? (4 Marks)

   b) Explain what is meant by historical VAR and its advantages and disadvantages. (8 Marks)

   c) The following table relates to the returns on a share in the first 20 days of January 2022

COUNT	RETURN	COUNT	RETURN
1	0%	11	-3%
2	2%	12	-4%
3	-1%	13	-3%
4	-1%	14	-4%
5	2%	15	1%
6	2%	16	2%
7	-2%	17	3%
8	-2%	18	4%
9	3%	19	-5%
10	3%	20	3%

Assume that the same returns would apply to the first 20 days of March 2022, calculate the value at risk of the share valued at K3000, on day 5 and 20 of March 2022. (8 Marks)

3. a) What is a protective put hedge? (5 Marks)

b) Explain the advantages and disadvantages of hedging. (10 Marks)

c) With a practical example, explain how options work? (5 Marks)

4. a) What is Credit risk? (2 Marks)

   b) Discuss the three characteristics that define credit risk. (8 Marks)

   c) Explain the difference between settlement risk and concentration risk. (8 Marks)

   d) What is default risk? (2 Marks)

5. a) Discuss the advantages of having an integrated approach to risk management. (8 Marks)

   b) What is risk capital? (2 Marks)

   c) Explain the concept of risk capital test.(5 Marks)

   d) Discuss the duties of legal accountants. (5 Marks)

6. a) What is delta hedge? (6 Marks)

   b) Explain what is meant by long position or short position in Hedging. (6 Marks)

   c) Discuss in detail, two hedging strategies that asset management companies employ in order to diversify risk. (8 Marks)

7. a) What is standard deviation in calculating risk? (5 Marks)

   b) Explain what is meant by 95% or 99% confidence level. What is the implication from your explanation of 5% and 1% confidence level? Give a practical example. (5 Marks)

   c) Zulu wants to calculate VaR for an investment in Salu plc. The price for Salu stock is K1000, its standard deviation for monthly returns is 20%, and we would like a 95% confidence level for the greatest monthly losses for this stock. Calculate VAR for Zulu using the variance method. Z-score for 95% confidence level is assumed to be 1.65 (10 Marks)