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Roll No...

Odd Semester Examination - February 2023
MBA III SEM
MBA-GE-FM-03: Financial Risk Management

Duration: 3 Hour

Max.Marks -75

Attempt any Five Question each carry equal Marks

Q1: (a) What are the various steps in the risk analysis process? Explain in detail.
(b) Suppose you are considering two investment options, A and B. Option A is a low-risk investment with an expected return of 5% per year, while option B is a high-risk investment with an expected return of 12% per year. Which option would you choose, and why?

[7.5+7.5=15]

Q2: (a) What is financial leverage and how does it impact the risk and return of an investment? Explain with Example.
(b) Suppose you own a bakery that sells cakes for Rs. 20 each. The fixed costs for your bakery are Rs.10,000 per month, and the variable costs for each cake are Rs.5.
What is the break-even point for your bakery in terms of the number of cakes sold per month?

(10+5=15]

Q3: (a) Describe the structure and components of the Indian financial system, including its role in the development of the Indian economy.
(b) You have been considering investing in the Indian stock market. You have decided to choose between investing in the BSE or the NSE. What factors should you consider when making your decision, and why? [10+5=15]

Q4: (a) Suppose you are a portfolio manager and you want to calculate the Value-at-Risk (VaR) for a portfolio with a total value of Rs.10 million, a confidence level of 95%, and a holding period of 1 day. Based on historical data, you have estimated that the daily standard deviation of the portfolio's returns is 2%. How would you calculate the VaR for this portfolio? [Table value of 95% is 1.65]
(b) Suppose you are a risk manager at a financial institution. You have been asked to conduct a stress test on the institution's portfolio of loans to assess its resilience to a sudden increase in interest rates. The portfolio has a total value of $1 billion and consists of loans with various maturities and interest rates. What steps would you take to conduct this stress test, and what results would you expect to see? [5+10=15]

Q5: (a) What is operational risk and how can it be managed in a financial institution?
(b) What is a credit rating system and how does it work? [7.5+7.5=15]

Q6: (a) What are ADRs, GDRs, and ECBs, and how do they differ from each other?
(b) Explain the main differences between conventional and Islamic banking related to risk measurement. [9+6=15]

Q7: A bank is entering into a securities trade with a counterparty and wants to assess the pre-settlement risk associated with the trade. The trade involves 100,000 shares of stock X, which is currently trading at Rs. 50 per share. The trade is expected to settle in three days.

(a) Explain what pre-settlement risk is and why it is important for the bank to consider.

(b) Identify three key components of pre-settlement risk that the bank should consider in this scenario.

(c) Propose three strategies that the bank can use to mitigate pre-settlement risk associated with this trade.

[5+5+5=15]

Q8: A government is planning to finance the construction of a new highway using a combination of public and private funding. The government is considering several options for financing the highway, including issuing bonds, securing loans from commercial banks, and attracting private investment through public-private partnerships

(a) What is infrastructure financing risk and why is it important to consider when financing the construction of a new highway?

(b) Identify three potential sources of infrastructure financing risk associated with each of the financing options considered by the government.

(c) Propose three strategies that the government can use to mitigate the infrastructure financing risk associated with financing the construction of the new highway.

[5+5+5 =15]