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MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
EXAMINATION: DECEMBER- 2024
SEMESTER - III

Sub.: Risk Management (MFM306)

Date : 17/12/2024

Total Marks : 60

Time: 10.00am to 12.30pm

Instructions: 1) All questions are compulsory.
 2) Figures to the right indicate full marks.

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| Q. 1. | Write Short notes on (Any Three) | (15) |
| | 1. Types of Risks
2. Foreign Exchange Rates
3. Approaches for Corporate Risk Management
4. Credit Risk Management
5. Cross-currency Risk Analysis | |
| Q. 2. | Answer in detail (Any One) | (10) |
| | 1. Discuss the potential impacts of risk on organizations, both positive and negative.
2. How does risk management contribute to enhancing stakeholder confidence and organizational resilience? | |
| Q. 3. | Answer in detail (Any One) | (10) |
| | 1. What is the purpose of loan review in a bank's risk management process?
2. How can historical data be utilized to analyze and predict asset price movements? | |
| Q. 4. | Answer in detail (Any One) | (10) |
| | 1. Explain the importance of managing legal and regulatory risk in compliance with laws and regulations.
2. Discuss the importance of risk management in maintaining the stability and sustainability of banks. | |
| Q. 5. | Case Study | (15) |
| | <p>Tolins Exports is a mid-sized manufacturing firm in India that specializes in exporting textiles to the United States and Europe. The company earns 80% of its revenue in foreign currencies: USD and EUR. Over the last fiscal year, the firm has faced significant financial challenges due to currency fluctuations. For instance, the Indian Rupee (INR) depreciated by 5% against the USD but appreciated by 3% against the EUR.</p> <p>This volatility resulted in a reduction of ₹50 lakhs in net profits, as some of the payments from European clients were received after the currency appreciation, while the increased cost of importing raw materials priced in USD further affected margins. The company's finance team has proposed implementing a currency risk management strategy that includes tools like forward contracts, options, and currency swaps. These tools aim to lock in exchange rates or hedge against adverse currency movements. One proposed plan involves hedging 70% of expected USD inflows using forward contracts, given the higher volatility in the USD-INR exchange rate. For EUR transactions, the team suggests monitoring the market and using options to manage unexpected swings. However, the management is unsure about the costs and benefits of these strategies and seeks a clear evaluation before deciding.</p> <p>Questions:</p> <ol style="list-style-type: none"> 1. What is currency risk, and why is it significant for companies engaged in international trade? 2. Analyze the financial impact of the INR's depreciation against the USD and appreciation against the EUR on Tolins Exports' profitability. 3. Evaluate the proposed risk management strategies and recommend the best approach for Tolins Exports to minimize its currency risk. Justify your answer. | |