

International Financial Management

Mid-term Exam Mainpoints

(The foreign students)

Q1. Risk management questions (I)

- (1) What is the rationale for risk management?
- (2) Does risk management really benefit the shareholders?
- (3) After all many of the risks a company faces, are specific to it. Portfolio theory argues that shareholders are rewarded only for systematic risk. If shareholders can manage risk more efficiently on their own, by buying shares in various corporations, should companies really manage risk?

Q2. Risk management questions (II)

How Risk Management can add value to the company?

Q3. Risk management questions (III)

Organisations face various types of uncertainty. Milliken has classified uncertainty into three broad categories. State Uncertainty: This refers to the unpredictability of the environment. **To write out and state the causes of state uncertainty.**

Q4. Write out the enterprise risk management process (Hint: there are 9 standard processes in enterprise risk management process)

Q5. In this course, especially discussing about ERM (Enterprise Risk Management), Professor Chao will concentrate on banks and financial institutions. I point out that there are seven main risk categories concerning about analyzing the ERM in detail.

Type I. Market risk

Type II. Credit Risk

Type III. Operational risk

Type IV. Liquidity risk

Type V. Strategy Risk

Type VI. Reputation Risk

Type VII. Expense Risk

- (1) Explain the definitions of the above seven risk categories
- (2) To choose which risks belong to the following risk

A. Management Risk ; B. Chosen Risk ; C. Consequential

Q6. To compare with the differences between **Risk Management and Risk Hedging** by using the tables to analyze.

Indications: Q1 – Q6 mentioned above, you can find the reference answers in the file entitled “Chapter 1. Risk Management Concepts”

Q7. Understanding how different types of investment vehicles work is critical to your success. For example, what does a mutual fund invest in? Who is managing the fund? What are the fees and expenses? Are there any costs or penalties for accessing your money? These are all questions that should be answered before making an investment. While it is true there are no guarantees of making money, some work on your part can increase your odds of being a successful investor. Therefore, the question is **“to write out your investment portfolio program if you have one million USD on hand.”(including the investment percentage/amount, financial investment item)**
(Reference File: Investment strategy CH 5, CH 6)

Q8. An investment portfolio is a combination of asset classes such as stocks, bonds and cash. The portfolio might be further divided into sub-asset classes like large cap stocks, mid-cap stocks, small cap stocks and international stocks. On the bond side you might have some short-term bonds, intermediate-term, tax-exempt municipal bonds and foreign bonds. Each asset class and sub-asset class can be further sub-divided. Investment vehicles used might include mutual funds, ETFs, individual stocks and bonds and others. The question is as follows.

In your own country, to arrange both your investment plan (investment vehicles) and risk-avoiding program divided into four time period to get a better investment performance. A. short term B. middle term C. Mid-to-long term D. long term

Q9. (1) What's the compounding effects? Explain it.

(2) Why we have to invest early to get a safety retirement plan? Write out your viewpoints. **(Reference File: Investment strategy CH 2)**

Q10. You might even have different investments for different goals. The point is that before you decide to invest any money it is important to understand why you are investing and the end result that you are seeking. Goals and objectives should not be created in a vacuum. You also need to know your risk tolerance. How much of a drop in value for your investments can you stomach? Your risk tolerance will likely be in part a function of when you need the money—known as your time horizon—which is usually a function of age. The question is as follows.

(1) Describe your risk tolerance in investment.

(2) How to make the better choice whenever you have met your investment performance is now -20% ROI (Return on Investment), what's your strategy?

(3) Describe the relation among “risk tolerance”, “investment return” and “risk” based on your investment characteristics and personality.

(Reference File: Investment strategy CH 2)

Q11. Earnings Yield Vs. Bond Yields questions

Investors have a vast array of investment options at their disposal at all times. For the purposes of this discussion, let's assume that the choice is limited to stocks or bonds. **Straight bonds**, whether government or corporate, pay a guaranteed fixed **rate of return** for some period of time, as well as a guaranteed return of the original investment at the end of that fixed period. The earnings yield on a stock is neither guaranteed nor of a definite time period. However, earnings can grow, while **bond yields remain fixed**. The question is as follows.

(1) How do you compare these two?

(2) What are the key factors needed to take into consideration?

Reference website: <http://isites.nhu.edu.tw/yschao/doc/5047>