Assessment

Risk Management

First Edition

The objectives of this book are to help the user:

- Define risk and understand the nature of various risks that companies face
- Assess the risks and classify them to aid in appropriate decision making
- Develop strategies for managing risks most effectively
- Implement systems for keeping risks under control

CRISP series

Assessment 1423918002as 02/07/07

Assessment Questions for
Risk Management, First Edition

Select the best response.

1. Risk can be represented mathematically as:
   - A. *Exposure x Damage*
   - B. *Probability x Damage*
   - C. *Probability x Hazard of Loss*

2. A typology of risks is a tool to help managers:
   - A. Identify, evaluate, and act on risks
   - B. Accept the multitude of risks faced by the company
   - C. Assess whether legal help is needed

3. Risks can be categorized as:
   - A. Financial or non-financial
   - B. Controllable or uncontrollable
   - C. Internal or external
   - D. All of the above

4. Most risks are isolated and do not impact other identified risks.
   - A. True
   - B. False

5. A company's risk profile includes:
   - A. Its managers' ability to accept risk
   - B. Its track record for identifying and avoiding risk
   - C. Its risk appetite and tolerance

6. Risk mapping allows you to:
   A. Focus on the legal risks facing your company
   B. Plan your risk budget according to the importance of the risks
   C. Identify and rank risks affecting your company
   D. A and B
   E. B and C

7. Which of the following are ways to assess new projects?
   A. Net present value
   B. Fishbone diagrams
   C. Real option theory
   D. A and C
   E. A and B

8. Risk assessment corresponds to the perception of threat or opportunity and not the exact knowledge of it.
   A. True
   B. False

9. Stress testing for companies involves:
   A. Comparing the number and degree of risks to the risk management budget
   B. Imagining how to respond to worst-case scenarios
   C. Testing managers to analyze their tolerance for risk
   D. All of the above

10. Legal risks should not be included in your risk assessment and mapping.
    A. True
    B. False

11. Companies transfer risks by:
    A. Training managers to deal with possible risks
    B. Creating comprehensive risk management plans
    C. Buying insurance and outsourcing

12. Once a company transfers a risk it eliminates the risk for the company.
    A. True
    B. False

13. The risk that remains after all attempts to avoid, reduce, and transfer risks is called:
    A. Residual risk
    B. Minor risk
    C. Risk tolerance

14. Business continuity planning should include:
    A. The creation of contingency plans for all accepted risks
    B. A team to implement plans for frequent drills or practices
    C. A cost-benefit analysis to determine which contingency plans should be maintained
    D. All of the above

15. When responding to an unforeseen crisis, it is first necessary to:
    A. Stop managers from panicking
    B. Ensure all assets are protected
    C. Impose emergency powers and clarify the chain of command

16. In a liquidity crisis, one strategy that should never be adopted is to:
    A. Abandon or sell core business activities that are profitable
    B. Retain outside legal counsel
    C. Declare bankruptcy

17. Today's economy is highly interdependent due to:
    A. New corporate governance laws
    B. Globalization
    C. Dramatic technological changes
    D. All of the above

18. Which approach proves to be useful in managing risk?
    - A. Data models
    - B. Common sense
    - C. Both

19. The financial risk model that corresponds to the maximum loss a company can face at a certain confidence level is:
    - A. Value at risk
    - B. Net present value
    - C. Pareto principle
    - D. None of the above

20. Legal risk does not need to be accepted as a part of residual risk.
    - A. True
    - B. False

21. *A Posteriori* controls are actions implemented:
    - A. Based on a desired result
    - B. Based on the expectations of managers
    - C. Based on external influences
    - D. After results are compared against a target or goal

22. When internal controls are in place, the implicit assumption is that:
    - A. The actual risk is lower than the inherent risk
    - B. The inherent risk is lower than the actual risk
    - C. Risks have been eliminated

23. Once cause and effect have been identified, which of the following systems can managers implement to prevent the final effect from occurring?
    - A. Detective systems
    - B. Preventive systems
    - C. Protective systems
    - D. All of the above

24. Audit risk is:
    A. The risk of material omissions or misstatements in the audit financial statements
    B. The risk of management fraud
    C. The risk of improper controls and corporate governance

25. Management audits are an effective tool for:
    A. Completing job descriptions
    B. Reducing the risk of management mistakes or misjudgment
    C. Avoiding legal risk

Answer Key for
Risk Management, First Edition

Recommended response (Corresponding workbook page)

1. B (11)	6. E (37)	11. C (61)	16. A (75)	21. D (92)
2. A (16)	7. D (45, 47)	12. B (61)	17. B (75)	22. A (94)
3. D (20)	8. A (50)	13. A (65)	18. C (83)	23. D (96)
4. B (26)	9. B (52)	14. D (69, 70)	19. A (82)	24. A (104)
5. C (30)	10. B (58)	15. C (74)	20. A (85)	25. B (107)