Multiple Choice Questions Chapter 2

1. Traditional risk management is concerned primarily with
   (a) dynamic risks.
   (b) pure risks.
   (c) fundamental risks.
   (d) speculative risks.

2. The evolution of risk management is traceable to
   (a) the introduction of decision theory in business college curricula.
   (b) systems safety in the aerospace program.
   (c) the field of corporate insurance buying.
   (d) all of the above.

3. Traditional risk management
   (a) is synonymous with corporate insurance buying.
   (b) draws on several other disciplines but is a distinct discipline and function.
   (c) is somewhat narrower in scope than insurance management.
   (d) more than one of the above.

4. The term *enterprise risk management* refers to
   (a) management of risks related to derivatives and futures.
   (b) management of financial risks
   (c) integrated management of a firm's pure and speculative risks.
   (d) management of risks for profit-making organizations.

5. The risk that a firm's IT systems will fail is an example of
   (a) credit risk.
   (b) operational risk.
   (c) strategic risk.
   (d) compliance risk.

6. Financial risk management encompasses management of
   (a) operational risk, strategic risk, and credit risk
   (b) credit risk, market risk, and liquidity risk
   (c) compliance risk, credit risk, and strategic risk
   (d) pure risk, speculative risk, and strategic risk

7. Henri Fayol's place in the history of risk management arises from
   (a) his introduction of the term "risk management."
   (b) his work in the field of systems safety.
   (c) his work in the field of operations research.
   (d) his recognition of risk management as one of six broad functions of business.

8. Which of the following techniques for dealing with risk may be said to represent a special variation of other techniques?
   (a) reduction.
   (b) sharing.
   (c) transfer.
   (d) retention.

9. Risk management contributes to organization profit
   (a) by reducing the cost of losses.
   (b) by allowing the organization to engage in certain speculative risks.
   (c) by preserving the organization's operating effectiveness.
   (d) all of the above.

10. Involuntary retention occurs when
   (a) the risk is not recognized.
   (b) insurance does not cover the intended exposure.
   (c) loss control measures are improperly implemented.
   (d) all of the above.

11. Risk avoidance should be used in those instances in which
   (a) no other alternative is available.
   (b) the exposure has catastrophic potential and the risk cannot be reduced or transferred.
   (c) when the frequency of loss is low.
   (d) when the probability or frequency cannot be determined.

12. As it exists today, risk management represents the merging of the specialties
   (a) insurance, actuarial science, and decision theory.
   (b) loss prevention, loss control and loss financing.
   (c) decision theory, risk financing, and risk control.
   (d) Intuitive decisions, conventions, and instinctive reactions.

13. The type of retention that is always undesirable is
   (a) unfunded retention.
   (b) unintentional retention.
   (c) voluntary retention.
   (d) all forms of retention are undesirable.

14. The two broad approaches to dealing with risk are
   (a) risk retention and risk transfer.
   (b) risk avoidance and risk transfer.
   (c) risk control and risk financing.
   (d) insurance management and risk management.

15. Which of the following statements about risk management is correct?
   (a) risk management has relevance for organizations of all sizes.
   (b) risk management has an anti-insurance bias and seeks to minimize the use of insurance in dealing with risk.
   (c) risk management is concerned primarily with the risk problems of giant corporations.
   (d) risk management is a function of business and as such has little relevance for the individual.

16. The two most important of the pre-loss and post-loss objectives are
   (a) meeting social responsibility and meeting external obligations.
   (b) continued growth and earning stability.
   (c) survival and economy.
   (d) earning stability and reduction in anxiety.

17. The step in the risk management process that is most likely to be overlooked is
    (a) determination of objectives.
    (b) risk identification.
    (c) evaluating risks.
    (d) selection of the risk treatment device.

18. The most difficult step in the risk management process is likely to be
    (a) determination of objectives.
    (b) risk identification.
    (c) evaluating risks.
    (d) selection of the risk treatment device.

19. A risk management policy statement
    (a) provides a framework within which the risk manager may make decisions.
    (b) should permit the risk manager some latitude.
    (c) should be a product of the board of directors with advice from the risk manager.
    (d) all of the above.

20. The ultimate goal of risk management is to
    (a) minimize insurance expenditures.
    (b) make certain that uninsured losses do not occur.
    (c) minimize the adverse effects of losses and uncertainty connected with risks.
    (d) eliminate financial loss.