MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE

BACHELOR OF EDUCATION

BACHELOR OF ECONOMICS

BMS 101: INTRODUCTION TO INSURANCE

DATE: **TIME:**

INSTRUCTIONS: Attempt Question ONE and any other TWO questions

QUESTION ONE (COMPULSORY)

a) Distinguish between the following terminologies used in insurance:

i) Insurance and Gambling (2 marks)

ii) Insured and Insurer (2 marks)

iii) Moral hazard and legal hazard (2 marks)

iv) Peril and loss (2 marks)

b) An upcoming entrepreneur has approached you for advice on insurance and the benefits he would get from purchasing insurance for his new business. Advise him. (10 marks)

c) Ben gets his house insured against fire for Ksh.10000 with insurer P and for Ksh.20000 with insurer Q. A loss of Ksh.15000 occurs, P is liable to pay for Ksh.5000 and Q is labile to pay Ksh.10000. If the whole amount of loss is paid by Q, then Q can recover Ksh.5000 from P.

Required: Determine the liability of P & Q. (8 marks)

d) Outline the four steps in risk management. (4 marks)

QUESTION TWO

a) Explain: i) Marine Insurance (6 marks)

ii) Miscellaneous Insurance (6 marks)

b) Discuss the circumstances under which the right of contribution arises. (8 marks)

QUESTION THREE (20 MARKS)

a) Functions of insurance are divided into primary and secondary ones. Explain any three secondary functions. (6 marks)

b) Describe the process of Underwriting. (6 marks)

c) Prevention of loss is desirable because we gain a lot from preventing a loss. Explain citing examples FOUR classes of prevention and protective efforts. (8 marks)

QUESTION FOUR (20 MARKS)

a) Insurance generates significance impact on the economy of any nation by mobilizing domestic savings among others. Discuss how this industry helps stimulate the Kenyan economy. (10 marks)

b) Briefly explain five ways to increase efficiency by reducing risk and uncertainty. (10 marks)

QUESTION FIVE (20 MARKS)

a) Insurance premiums are calculated by predicting future losses of a particular group but without absolute precision. Insurance prediction is therefore based on the law of large numbers. Discuss how The Law of Accuracy and Large Numbers operates. (6 marks)

b) Describe: i) Speculative Risk

ii) Pure risk (8 marks)

c) Describe any three types of Business insurance (6 marks)