Assessment 7 — Total Marks: 30

1. Short Questions: (6)
   I. What are the different types of financial risks? Explain each.
   II. Briefly describe the main benefits of financial risk management.
   III. What is liquidity risk?
2. What is the difference between liquidity and credit risk? (6)
3. What is currency risk? And how its effects can be reduced? (8)

Case Study (10)

Parker co is a chain of large 250 departmental stores and operates in 35 countries. Their current assets excluding trade debtors are $3.5 million and current liabilities excluding trade creditors are $2.8 million. Trade credits are $1.2 million and trade debtors are $100,000 only.

Sale has decreased 3% last year due to recession. Parker co is planning to open new stores in Far East, in a new country with high inflation rate.

All store buildings are owned by Parker co and a recent report in news paper shows that commercial property value has decreased significantly in last one year due to recession and tight funding conditions from financial institutes.

Keeping in view the above case please answer the following Questions:

1. Calculate current ratio of Parker Co.

2. Explain liquidity risk and discuss how it can affect Parker co.
   (Liquidity ratio 1 or more is considered healthy)