

Economics and Business Examination

30th April 2023

Instructions to candidates

Read the instructions below before answering any questions

Three hours are allowed for this paper which carries a total of 160 marks, as follows:

Part I

1 compulsory question (case study) 80 marks

Part II

2 questions selected from 3 (scenarios) 40 marks each for a total of 80marks

- You should answer the question in Part I, and two out of the three questions in Part II.
- You are advised to spend no more than 90 minutes on Part I and 45 minutes on each question selected in Part II.
- It is recommended that you spend 15 minutes reading and planning your answer to the case study and 75 minutes answering it, and that you spend 10 minutes reading and planning your answer to each scenario and 35 minutes answering it.
- A case study tests extensively across syllabus learning outcomes, whilst a scenario will be more focused on specific learning outcomes.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I

Case study

This question is worth 80 marks

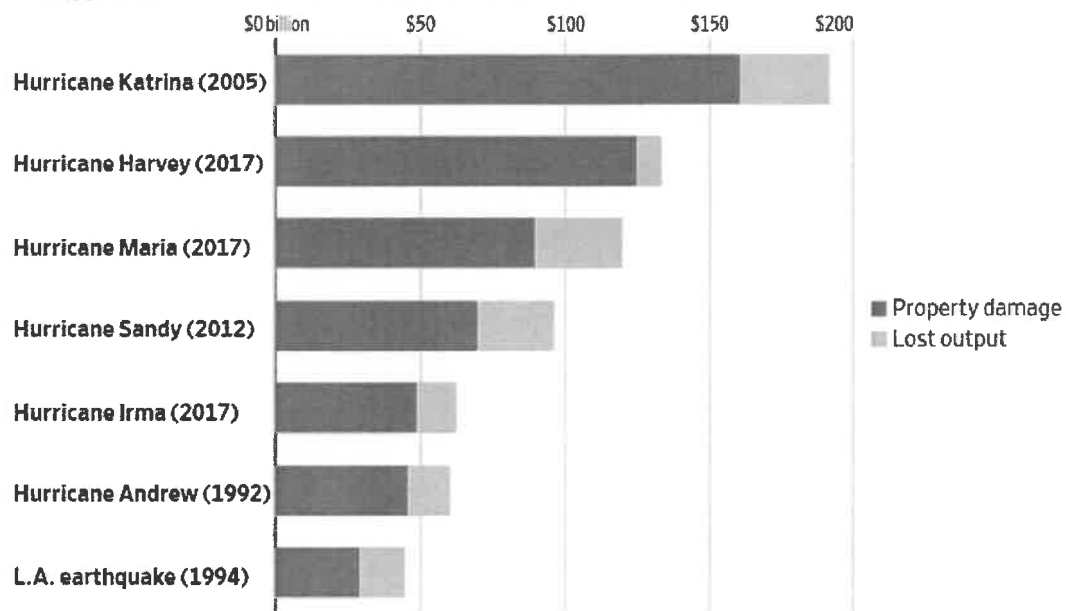
You should include relevant examples and further reading in your answer where applicable

QUESTION 1

CASE STUDY

Storm Costs

The biggest economic losses from natural disasters in the U.S. from 1950 to 2017



Note: Figures are inflation-adjusted

Source: Moody's Analytics

In 2017, Hurricane Harvey hit the city of Houston in Texas, causing widespread flooding and significant property damage. The hurricane resulted in over \$125 billion in damages, making it one of the costliest natural disasters in US history. In the aftermath of the hurricane, insurance companies were faced with an unprecedented number of claims, putting pressure on their ability to meet the needs of their customers while maintaining their financial stability.

In recent years, there has been an increase in extreme weather events across the globe, including hurricanes, floods, and wildfires. These events have caused billions of dollars in damages and have put a spotlight on the role of insurance in the economy. As a result, insurance companies are facing new challenges in meeting the needs of their customers and ensuring their own financial stability.

QUESTION

Discuss the impact of extreme weather events on the insurance industry and the wider economy, including the concepts of supply and demand, the competitive environment, and monetary and fiscal policies.

Explain what role do ethics, corporate governance, and risk management play in ensuring the sustainability of the insurance business in the context of a volatile economy as a result of the disruptions mentioned in the scenario.

(80 marks)

PART II Scenarios

Answer TWO of the following THREE questions.

Each question is worth 40 marks

**To gain maximum marks you should include relevant examples
and further reading in your answer**

QUESTION 2

SCENARIO

In recent years, there has been a growing demand for cyber insurance policies in the European market. As businesses increasingly rely on digital technology, they face greater exposure to cyber risks, including data breaches, ransomware attacks and other forms of cybercrime. This has created a need for insurance coverage to mitigate the financial losses and reputational damage that can result from these incidents.

QUESTION

Using the scenario of the growing demand for cyber insurance in the European market, explain how supply and demand and competition apply in the insurance industry.

Explain how insurance companies determine the pricing and coverage of cyber insurance policies in such a competitive market, and what factors affect the demand for cyber insurance coverage.

(40 marks)

QUESTION 3

SCENARIO

The government is a powerful economic influencer, able to incentivize and affect the macro economy of a given country. Depending on the economic situation in the country and also the economic environment internationally, governments take monetary and fiscal measures to stimulate or to adjust the position of their economic situation.

For example, in the United States, the government approved a \$1.9 trillion stimulus package in March 2021, which included direct payments to individuals and support for small businesses. In Germany, the government implemented a €130 billion stimulus package in June 2020, which included measures to support the healthcare sector. In the European Union, the European Central Bank implemented a €1.85 trillion Pandemic Emergency Purchase Programme in March 2020, which aimed to stabilize financial markets and support economic activity.

QUESTION

Evaluate the effectiveness of government intervention in managing a country's macroeconomy and discuss the various monetary and fiscal measures that governments take, the factors that influence their decisions, and the potential consequences of these measures.

(40 marks)

QUESTION 4

SCENARIO

Consolidated Hallmark Insurance (CHI), a Nigerian insurance company, was fined by the Nigerian Stock Exchange for violating corporate governance rules in 2018. The company was accused of failing to disclose its audited financial statement on time and withholding information from investors. The violation damaged CHI's reputation and financial performance, as investors lost confidence in the company.

This case highlights the importance of ethical behaviour, corporate governance, and financial planning and accounting in the insurance industry in Africa. Insurance companies should adhere to best practices, establish ethical standards, invest in systems and processes to ensure accurate financial reporting, and engage with stakeholders to build trust and foster transparency.

QUESTION

Using the case scenario of Consolidated Hallmark Insurance in Nigeria, discuss the importance of business ethics, corporate governance, and financial planning and accounting in the insurance industry in Africa. Explain how unethical practices, such as the withholding of information from investors, could impact the reputation and financial performance of an insurance company and how insurance companies in Africa can ensure that they comply with corporate governance rules and maintain transparency in their financial reporting.

(40 marks)
