# 2016-FRR[Q&As]

Financial Risk and Regulation (FRR) Series

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**QUESTION 1**

Which of the following statements about the option gamma is correct? Gamma is the: I. Second derivative of the option value with respect to the volatility.

II. Percentage change in option value per percentage change in the price of the underlying instrument.

III. Second derivative of the value function with respect to the price of the underlying instrument.

IV.

Rate of change of the option delta with respect to changes in the underlying price.

A.

I only

B.

II and III

C.

III and IV

D.

II, III, and IV

Correct Answer: C

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**QUESTION 2**

A trader for EtaBank wants to take a leveraged position in Collateralized Debt Obligations. If these CDOs can be used in a repo transaction at a 20% haircut, what is the maximum leverage factor for a transaction with the CDOs?

A. 0.8

B. 1.5

C. 3

D. 5

Correct Answer: D

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**QUESTION 3**

Bank Alpha is making a decision about lending 10-year loans in a sector that is fairly illiquid and is looking at various options to fund the loans. Which of the following options to fund the loans exhibits the most exogenous liquidity risk?

A. Overnight interbank markets

B. The 6-month LIBOR markets

C. The 1-year treasury markets

D. Foreign exchange markets

Correct Answer: A

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**QUESTION 4**

Which one of the following four options is NOT a typical component of a currency swap?

A. An initial currency exchange of the notional amount

B. Denomination of the original notional amount into a foreign currency

C. Periodic exchange of interest payments in different currencies

D. A final currency exchange

Correct Answer: B

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**QUESTION 5**

To estimate a partial change in option price, a risk manager will use the following formula:

A. Partial change in option price = Delta x Change in underlying price

B. Partial change in option price = Delta x (1+ Change in underlying price)

C. Partial change in option price = Delta x Gamma x Change in underlying price

D. Partial change in option price = Delta x Gamma x (1+ Change in underlying price)

Correct Answer: A