2016-FRR[Q&As]

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which one of the following four statements correctly identifies disadvantages of using the economic capital?

A. The economic capital models used by banks may be subject to significant model risk.

B. Economic capital may do not take into consideration the regulatory requirements.

C. Since banks are putting their money at risk they have an incentive to increase economic capital.

D. Economic capital estimates the level of expected losses.

Correct Answer: A

QUESTION 2

Samuel Teng owns a portfolio of bonds and is trying to compute the convexity of his portfolio. Which of the following choices equals the convexity of Samuel\\'s portfolio?

A. Minimum of the convexities of the component bonds

B. Value-weighted average convexity of the component bonds

C. Coupon-weighted average convexity of the component bonds

D. Maximum of the convexities of the component bonds

Correct Answer: B

QUESTION 3

A risk analyst at EtaBank wants to estimate the risk exposure in a leveraged position in Collateralized Debt Obligations. These particular CDOs can be used in a repurchase transaction at a 20% haircut. If the VaR on a $100 unleveraged position is estimated to be $30, what is the VaR for the final, fully leveraged position?

A. $20

B. $50

C. $100

D. $150

Correct Answer: D

QUESTION 4

The risk management department of VegaBank wants to set guidelines on commodity carry trades. Which of the following strategies should she pursue to achieve a profitable commodity carry?

I. Buy short-term commodity futures and sell longer-dated position when the curve is in contango.

II. Buy short-term commodity futures and sell longer-dated position when the curve is in backwardation.

III. Buy long-term commodity futures and sell shorter-dated positions when the curve is in contango.

IV.

Buy long-term commodity futures and sell shorter-dated positions when the curve is in backwardation.

A.

I, II

B.

I, III

C.

II, IV

D.

I, IV

Correct Answer: D

QUESTION 5

A credit rating analyst wants to determine the expected duration of the default time for a new three-year loan, which has a 2% likelihood of defaulting in the first year, a 3% likelihood of defaulting in the second year, and a 5% likelihood of defaulting the third year. What is the expected duration for this three-year loan?

A. 1.5 years

B. 2.1 years

C. 2.3 years

D. 3.7 years

Correct Answer: C