# 2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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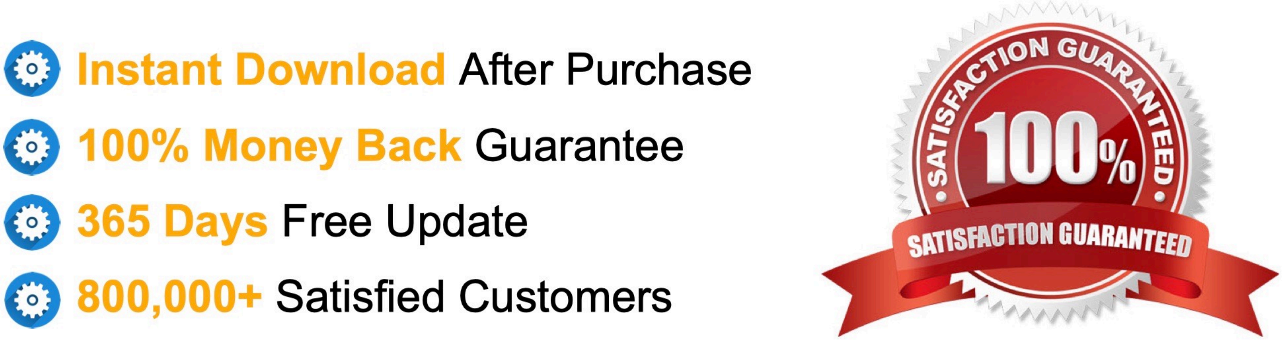

**QUESTION 1**

A trader for EtaBank wants to take a leveraged position in Collateralized Debt Obligations. These CDOs can be used in a repurchase transaction at a 20% haircut. Starting with $100 worth of CDOs, which one of the following four positions would completely utilize the available leverage?

A. The trader can buy $100 in CDO\\'s, and repo the CDO\\'s to get back $100, less interest.

B. The trader can buy $100 in CDO\\'s, and repo the CDO\\'s to get back $80, less interest.

C. The trader can buy $100 in CDO\\'s, and repo the CDO\\'s to get back $60, plus interest.

D. The trader can buy $100 in CDO\\'s, and repo the CDO\\'s to get back $20, plus interest.

Correct Answer: B

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**QUESTION 2**

Which one of the following four statements correctly describes an American call option?

A. An American call option gives the buyer of that call option the right to buy the underlying instrument on any date up to and including the expiry date.

B. An American call option gives the buyer of that call option the right to sell the underlying instrument on any date up to and including the expiry date.

C. An American call option gives the buyer of that call option the right to buy the underlying instrument on the expiry date.

D. An American call option gives the buyer of that call option the right to sell the underlying instrument on the expiry date.

Correct Answer: C

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**QUESTION 3**

In the United States, stock investors must comply with the Regulation T of the Federal Reserve Bank and may borrow up to ___ of the value of the securities from their brokers.

A. 30%

B. 40%

C. 50%

D. 60%

Correct Answer: C

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**QUESTION 4**

Using a forward transaction, Omega Bank buys 100 metric tones of aluminum for delivery in six-months\\' time. However, after two months, the bank becomes concerned with the potential fluctuations in aluminum prices and wants to hedge its potential exposure against a possible decline in aluminum prices. Which one of the following four strategies could the bank use to offset the risk from its current exposure to aluminum as it sets the price for selling the commodity in four-months\\' time?

A. Sell an aluminum futures contract

B. Buy an aluminum futures contract

C. Sell an aluminum forward contract

D. Buy an aluminum forward contract

Correct Answer: A

**QUESTION 5**

Which one of the following four option types has two strike prices?

A. Asian options

B. American options

C. Range options

D. Shout options

Correct Answer: D