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QUESTION 1

Which of the following are among the main uses of risk reports?

A. Identification of exceptional situations that require managerial attention.

II. Display the relative risk among different trades.

III. Specify how RAROC will be maximized within the bank.

IV. Estimate the overall risk levels of the bank.

B. I, II and IV

C. II and III

D. II and IV

E. II, III, and IV

Correct Answer: A

QUESTION 2

A bank customer expecting to pay its Brazilian supplier BRL 100 million asks Alpha Bank to buy Australian dollars and sell Brazilian reals. Alpha bank does not hold Brazilian reals so it asks for a quote to buy Brazilian reals in the market. The market rate is 100. The bank quotes a selling rate of 101 to its customer, sells the reals, and receives AUD 1,010,000. To perform foreign exchange matched position trading, the banks should

A. Immediately buy the real at the market rate of 100 and pay AUD 1,000,000.

B. Immediately buy the real above the market rate of 105 and pay AUD 1,050,050.

C. Immediately sell the real at the market rate of 100 and receive AUD 1,000,000.

D. Immediately sell the real above the market rate of 105 and receive AUD 1,050,050.

Correct Answer: A

QUESTION 3

Which of the following bank events could stress the bank\\'s liquidity position?

A. Obligations to fund assets like mortgages

II. Unusually large depositor withdrawals

III. Counterparty collateral calls

IV. Nonperforming assets

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B. I, II

C. IV

D. III, IV

E. I, II, III and IV

Correct Answer: D

QUESTION 4

Which one of the following four variables of the Black-Scholes model is typically NOT known at a point in time?

A. The underlying relevant exchange rates

B. The underlying interest rates

C. The future volatility of the exchange rates

D. The time to maturity

Correct Answer: C

QUESTION 5

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

QUESTION 6

Which one of the following four statements regarding the current value of a transaction and its purposes is INCORRECT?

A. For cash settled instrument the final market value is used to settle the transaction with the counterparty

B. Profit and loss calculations are made by comparing the current values to the intrinsic values.

C. Margin call by futures exchanges are based on the current market value.

D. Counterparty credit risk calculations are made by analyzing the current values of all deals with the same counterparty.

Correct Answer: B

QUESTION 7

All of the four following exotic options are path-independent options, EXCEPT:

A. Chooser options

B. Power options

C. Asian options

D. Basket options

Correct Answer: C

QUESTION 8

ThetaBank has extended substantial financing to two mortgage companies, which these mortgage lenders use to finance their own lending. Individually, each of the mortgage companies has an exposure at default (EAD) of $20 million, with a loss given default (LGD) of 100%, and a probability of default of 10%. ThetaBank\'s risk department predicts the joint probability of default at 5%. If the default risk of these mortgage companies were modeled as independent risks, what would be the probability of a cumulative $40 million loss from these two mortgage borrowers?

A. 0.01%

B. 0.1%

C. 1%

D. 10%

Correct Answer: C

QUESTION 9

Which one of the following four alternatives lists the three most widely traded currencies on the global foreign exchange market, as of April 2007, in the decreasing order of market share? EUR is the abbreviation of the European euro, JPY is for the Japanese yen, and USD is for the United States dollar, respectively.

A. JPY, EUR, USD

B. USD, EUR, JPY

C. USD, JPY, EUR

D. EUR, USD, JPY

Correct Answer: B

QUESTION 10

James Johnson manages a bond portfolio with all investment grade bonds. Adding which of the following bonds would minimize the credit risk of his portfolio?

A. A

B. B

C. C

D. D

Correct Answer: A

QUESTION 11

Which of the following statements describes correctly the objectives of position mapping ?

A. For VaR calculations, mapping converts positions based on their deltas to underlying factor risks.

B. Position mapping models risk factors affecting the value of a position as combination of core risk factors used in the VaR calculations.

C. Position mapping groups similar positions into one group based on the closeness of their respective VaR.

D. Position mapping reduces the possible number of risk factors to a computationally manageable level.

E. I and II

F. II and IV

G. I, II and III

H. II, III, and IV

Correct Answer: B

QUESTION 12

Which one of the four following statements about consortium databases is correct? Consortium databases

A. Gather information from news articles.

B. Use data from the top 5% of the industry.

C. Provide data to map risk categories with causes.

D. Contain anonymous information.

Correct Answer: D

QUESTION 13

Altman\\'s Z-score incorporates all the following variables that are predictive of bankruptcy EXCEPT:

A. Return on total assets

B. Sales to total assets

C. Equity to debt

D. Return on equity

Correct Answer: D

QUESTION 14

In analyzing the historical performance of a financial product, you are concerned about "fat tails", the probability of extreme returns compared to realized returns. Which of the following measures should you use to determine if the product return distribution of the product has "fat tails"?

A. Mean

B. Standard deviation

C. Skewness

D. Kurtosis

Correct Answer: D

QUESTION 15

Gamma Bank provides a $100,000 loan to Big Bath retail stores at 5% interest rate (paid annually). The loan is collateralized with $55,000. The loan also has an annual expected defaultrate of 2%, and loss given default at 50%. In this case, what will the bank\\'s exposure at default (EAD) be?

A. $25,000

B. $50,000

C. $75,000

D. $105,000

Correct Answer: B

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