



# 2016-FRR<sup>Q&As</sup>

Financial Risk and Regulation (FRR) Series

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### QUESTION 1

Which one of the following four model types would assign an obligor to an obligor class based on the risk characteristics of the borrower at the time the loan was originated and estimate the default probability based on the past default rate of the members of that particular class?

- A. Dynamic models
- B. Causal models
- C. Historical frequency models
- D. Credit rating models

Correct Answer: C

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### 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

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### QUESTION 3

What is the explanation offered by the liquidity preference theory for the upward sloping yield curve shape?

- A. The long term rates must rise enough to get some borrowers to borrow short-term and some lenders to lend long-term.
- B. The long term rates must rise enough to get some borrowers to borrow long-term and some lenders to lend short-term.
- C. The short term rates must rise enough to get some borrowers to borrow short-term and some lenders to lend long-term.
- D. The short term rates must fall enough to get some borrowers to borrow long-term and some lenders to lend short-term.

Correct Answer: A

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#### QUESTION 4

Foreign exchange rates are determined by various factors. Considering the drivers of exchange rates, which one of the following changes would most likely strengthen the value of the USD against other foreign currencies?

- A. The expected US inflation rate increases
- B. The global demand for US products decreases
- C. The economic performance in the US weakens
- D. The US current account surplus increases

Correct Answer: D

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#### QUESTION 5

Which one of the following four statements about preferred shares is INCORRECT?

- A. Preferred shares refer to a class of securities that is a cross between equity and debt.
- B. Preferred shares represent residual of a corporation after its other liabilities have been paid.
- C. Preferred shares are subordinated to debt.
- D. Preferred shares can be perpetual or have maturities far exceeding debt maturities.

Correct Answer: B

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