

2016-FRR^{Q&As}

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which of the following about the ratios between various Tiers of capital is not a requirement of the Basel Committee?

- A. Tier 2 capital cannot exceed 50% of the bank\\'s total regulatory capital.
- B. Innovative instruments in Tier 1 are limited to a maximum of 15% of Tier 1 capital.
- C. Lower Tier 2 capital may only equal 50% of core capital.
- D. Upper Tier 2 capital may only equal 30% of core capital.

Correct Answer: B

QUESTION 2

John owns a bond portfolio worth \$2 million with duration of 10. What positions must be take to hedge this portfolio against a small parallel shifts in the term structure.

- A. Long position worth \$2 million with duration of 10.
- B. Long position worth \$20 million with duration of 1.
- C. Short position worth \$2 million with duration of 10.
- D. Short position worth \$20 million with duration of 1.

Correct Answer: C

QUESTION 3

An options trader is assessing the aggregate risk of her currency options exposures. As an options buyer, she can potentially ____ lose more than the premium originally paid. As an option seller, however, she has a ____ risk on the contract and always receives a premium.

- A. Never, unlimited
- B. Sometimes, unlimited
- C. Never, limited
- D. Sometimes, limited

Correct Answer: A

QUESTION 4

Since most consumers of natural gas do not have the ability to store it, they contract with gas suppliers to receive a flow of natural gas equal to a specific number of MMBT\\'s per day (MMBT is millions of British Termal Units, the unit in



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which gas futures are quoted on the U.S. markets). To protect against price increases with a bank, the natural gas consumer, concerned with the average price over the course of the month, will use the following contracts:

- A. American options
- B. Asian options
- C. Compound options
- D. Flexible volume options

Correct Answer: B

QUESTION 5

Which one of the following four factors typically drives the pricing of wholesale products?

- A. Marketing considerations
- B. Prevailing market price
- C. Long-term competitiveness
- D. Overall risk exposure

Correct Answer: B

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