2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which of the following statements about the option gamma is correct? Gamma is the: I. Second derivative of the option value with respect to the volatility.

II. Percentage change in option value per percentage change in the price of the underlying instrument.

III. Second derivative of the value function with respect to the price of the underlying instrument.

IV.

Rate of change of the option delta with respect to changes in the underlying price.

A.

I only

B.

II and III

C.

III and IV

D.

II, III, and IV

Correct Answer: C

QUESTION 2

All of the following factors generally explain the equity bid-offer spread in a market EXCEPT:

A. Market volatility

B. Interest rates

C. Competition among market makers

D. Market depth

Correct Answer: B

QUESTION 3

On January 1, 2010 the TED (treasury-euro dollar) spread was 0.4%, and on January 31, 2010 the TED spread is 0.9%. As a risk manager, how would you interpret this change?

A. The decrease in the TED spread indicates a decrease in credit risk on interbank loans.

B. The decrease in the TED spread indicates an increase in credit risk on interbank loans.

C. Increase in interest rates on both interbank loans and T-bills.

D. Increase in credit risk on T-bills.

Correct Answer: B

QUESTION 4

Which of the following are typical properties of a statistical distribution of potential losses that a bank might sustain over a period of time?

I. The range of possible losses above the average loss is much greater than those below the average loss.

II. The loss that is most likely to occur is below the average loss.

III.

The loss that is most likely to occur is above the average loss.

A.

II

B.

I, II

C.

I, III

D.

III

Correct Answer: A

QUESTION 5

Which one of the following four models is typically used to grade the obligations of small- and medium-size enterprises?

A. Causal models

B. Historical frequency models

C. Credit scoring models

D. Credit rating models

Correct Answer: C