2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

A credit portfolio manager analyzes a large retail credit portfolio. Which of the following factors will represent typical disadvantages of market-linked credit risk drivers?

I. Need to supply a large number of input parameters to the model

II. Slow computation speed due to higher simulation complexity

III. Non-linear nature of the model applicable to a specific type of credit portfolios

IV.

Need to estimate a large number of unknown variable and use approximations

A.

I

B.

I, II

C.

II, III

D.

III, IV

Correct Answer: B

QUESTION 2

A trader attempts to hold long positions when markets are rising and hold short positions when markets are falling. Which one of the following four trading styles is she likely to use?

A. Technical trading

B. Contrarian trading

C. Black box trading

D. Market timing trading

Correct Answer: D

QUESTION 3

To reduce the variability of net interest income, Gamma Bank can swap positions that make its duration gap equal to

A. 0

B. 1

C. -1

D. 0.5

Correct Answer: A

QUESTION 4

Which one of the four following statements about Basis point values is correct? Basis point value:

A. Is a widely used statistical tool used to measure market risk.

B. Refers to the change in the value of a fixed income position for a very small change yields.

C. Is a risk sensitivity measure used to measure the point spread risk in the banking book.

D. Provides a quick estimate of the sensitivity of the bank\\'s banking book, to increasing volatility in interest rates.

Correct Answer: B

QUESTION 5

Which one of the following statements accurately describes market risk tolerance?

A. Market risk tolerance is the maximum likely gain in the market value of portfolios over a given period of time.

B. Market risk tolerance is the maximum loss in the market value of financial instruments caused by the failure of the counterparty to meet its obligations.

C. Market risk tolerance is the maximum loss the bank is willing to bear due to fluctuations in market prices and rates.

D. Market risk tolerance is the minimum loss the bank is willing to bear due to fluctuations in market prices and rates.

Correct Answer: C