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QUESTION 1

In analyzing market option pricing dynamics, a risk manager evaluates option value changes throughout the entire trading day. Which of the following factors would most likely affect foreign exchange option values?

- A. Change in the value of the underlying
- II. Change in the perception of future volatility III. Change in interest rates
- IV. Passage of time
- B. I, II
- C. I, II, III
- D. II, III
- E. I, II, III, IV

Correct Answer: D

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

QUESTION 3

Which of the following statements about a bank's behavior regarding Risk Adjusted Return on Capital (RAROC) is correct?

- A. A bank should always seek to maximize their overall RAROC.
- II. A bank should consider investing in a business even with negative RAROC if it increases the RAROC of the bank as a whole.
- III. A bank should minimize its overall RAROC by controlling the absolute and relative amount of risk of its businesses.
- IV. A bank should maximize its RAROC by always investing in a new business that maximizes the RAROC for that business unit.



B. I and II

C. II and IV

D. I, II and III

E. II, III, and IV

Correct Answer: A

QUESTION 4

Asset and liability management is typically concerned with all of the following activities:

A. Maintaining the desired liquidity structure of the bank.

II. Managing the factors affecting the structure and composition of a bank's balance sheet.

III. Effectively transferring the interest rate risk in the banking book to the investment bank at a fair transfer price.

IV. Focusing on the circumstances impacting the stability of income the bank generates over time.

B. I

C. II, III

D. III, IV

E. I, II, IV

Correct Answer: D

QUESTION 5

Securitization is the process by which banks

A. Issue bonds where the payment of interest and repayment of principal on the bonds depends on the cash flow generated by a pool of bank assets.

II. Issue bonds where the bank has transferred its legal right to payment of interest and repayment of principal to bondholders.

III. Sell illiquid assets.

B. I, II

C. I

D. I, III

E. I, II, III

Correct Answer: D



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