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QUESTION 1

Which one of the following market risk measures evaluates the bank's earnings sensitivity?

- A. Cash flow stress testing
- B. Large exposure risk identification
- C. Earnings-at-risk stress testing
- D. Value-at-risk back testing

Correct Answer: C

QUESTION 2

How could a bank's hedging activities with futures contracts expose it to liquidity risk?

- A. The futures hedge may not work due to the widening of basis which could result in a loss for the bank.
- B. Prices may move such that a loss results on the hedge.
- C. Since futures require margins which are settled every day, the bank could find itself scrambling for funds.
- D. The bank could get exposed to liquidity risk since futures trade on an exchange.

Correct Answer: C

QUESTION 3

Gamma Bank is operating in a highly volatile interest rate environment and wants to stabilize its net income by shifting the sources of its earnings from interest rate sensitive sources to less interest rate sensitive sources. All of the following strategies can help achieve this objective EXCEPT:

- A. Charge bank fees for underwriting loans
- B. Provide trust, asset management, and trading services to customers
- C. Extend different types of credit
- D. Originate more floating interest rate loans

Correct Answer: D

QUESTION 4

In analyzing the historical performance of a financial product, you are concerned about "fat tails", the probability of extreme returns compared to realized returns. Which of the following measures should you use to determine if the product return distribution of the product has "fat tails"?



- A. Mean
- B. Standard deviation
- C. Skewness
- D. Kurtosis

Correct Answer: D

QUESTION 5

A customer asks a broker employed by AlphaBank to buy Eureka Corporation bonds for her account. While this trade was executed correctly and the bonds were bought, the trade was mistakenly accounted for as a sell order. If the price of Eureka Corporation bonds goes up, this trade would result in a significantly larger loss than if the market had remained stable. However, if the market drops, the customer will benefit from the incorrect accounting and gain from this trade. This trading scenario can serve as an example that

- A. Market risk in this transaction can magnify operational risk.
- B. Credit risk in this transaction can magnify operational risk.
- C. Liquidity risk in this transaction can magnify operational risk.
- D. Strategic risk in this transaction can magnify operational risk.

Correct Answer: A

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