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QUESTION 1

John owns a bond portfolio worth $2 million with duration of 10. What positions must he 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 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

Bank Alpha is making a decision about lending 10-year loans in a sector that is fairly illiquid and is looking at various options to fund the loans. Which of the following options to fund the loans exhibits the most exogenous liquidity risk?

A. Overnight interbank markets

B. The 6-month LIBOR markets

C. The 1-year treasury markets

D. Foreign exchange markets

Correct Answer: A

QUESTION 4

Which one of the following four statements on the seniority of corporate bonds is incorrect?

A. Senior bonds typically have lower credit spreads than junior bonds with the same maturity and payment characteristics.

B. Seniority refers to the priority of a bond in bankruptcy.

C. Junior bonds always pay higher coupons than subordinated bonds.

D. In bankruptcy, holders of senior bonds are paid in full before any holders of subordinated bonds receive payment.

Correct Answer: C

QUESTION 5

Counterparty credit risk assessment differs from traditional credit risk assessment in all of the following features EXCEPT:

A. Exposures can often be netted

B. Exposure at default may be negatively correlated to the probability of default

C. Counterparty risk creates a two-way credit exposure

D. Collateral arrangements are typically static in nature

Correct Answer: D