ICBRR[Q&As]

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QUESTION 1

To estimate the price of gold forwards, an investment analyst focuses on the cost of holding physical gold (bullion) and the cost of shorting the same. Given that physical gold spot price is $1,000, the annual risk-free rate is 5%, and the gold lease rate equals 2% annually, the analyst\\'s best estimate of the gold forward price to equal

A. $950

B. $1030

C. $1070

D. $1100

Correct Answer: B

QUESTION 2

What does correlation between two variables measure?

A. Symmetry of a joint distribution of the two variables.

B. Association between the two variables and the strength of a possible statistical relationship.

C. The proportion of variability in one of the variables that is explained by the other.

D. Extreme returns of both variables.

Correct Answer: B

QUESTION 3

Present value of a basis point (PVBP) is one of the ways to quantify the risk of a bond, and it measures:

A. The change in value of a bond when yields increase by 0.01%.

B. The percentage change in bond price when yields change by 1 basis point.

C. The present value of the future cash flows of a bond calculated at a yield equal to 1%.

D. The percentage change in bond price when the yields change by 1%.

Correct Answer: A

QUESTION 4

When trading exotic options, one needs to consider the following risks:

A. Spot foreign exchange risks

II. Forward foreign exchange risks

III. Plain vanilla options risks

IV. Option-specific risks

B. I, III

C. II, III, IV

D. I, II, IV

E. I, II, III, IV

Correct Answer: D

QUESTION 5

A financial analyst is trying to distinguish credit risk from market risk. A $100 loan collateralized with $200 in stock has limited ___, but an uncollateralized obligation issued by a large bank to pay an amount linked to the long-term performance of the Nikkei 225 Index that measures the performance of the leading Japanese stocks on the Tokyo Stock Exchange likely has more ___ than ___.

A. Legal risk; market risk; credit risk

B. Market risk; market risk; credit risk

C. Market risk; credit risk; market risk

D. Credit risk, legal risk; market risk

Correct Answer: B