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QUESTION 1

A risk manager analyzes a long position with a USD 10 million value. To hedge the portfolio, it seeks to use options that decrease JPY 0.50 in value for every JPY 1 increase in the long position. At first approximation, what is the overall exposure to USD depreciation?

A. His overall portfolio has the same exposure to USD as a portfolio that is long USD 5 million.

B. His overall portfolio has the same exposure to USD as a portfolio that is long USD 10 million.

C. His overall portfolio has the same exposure to USD as a portfolio that is short USD 5 million.

D. His overall portfolio has the same exposure to USD as a portfolio that is short USD 10 million.

Correct Answer: A

QUESTION 2

When a credit risk manager analyzes default patterns in a specific neighborhood, she finds that defaults are increasing as the stigma of default evaporates, and more borrowers default. This phenomenon constitutes

A. Moral hazard

B. Speculative bias

C. Herd behavior

D. Adverse selection

Correct Answer: C

QUESTION 3

Using the definitions used by JPMorgan Chase in their annual report, which of the following exposure types would be considered as a non-trading risk exposure?

A. Short term equity investments

II. Loans held to maturity

III. Mortgage servicing rights

IV. Derivatives used to manage asset/liability exposure.

B. I and II

C. II and III

D. III and IV

E. II, III, and IV

Correct Answer: D

QUESTION 4

Bank Muri has $4 million in cash and $5 million in loans coming due tomorrow with an expected default rate of 1%. The proceeds will be deposited overnight. The bank owes $ 9 million on a securities purchase that settles in two days and pays off $8 million in commercial paper in three days that is not expected to renew. On day 2, $1 million in loans is coming in with an expected default rate of 1% and on day 3, $2 million in loans is coming in with expected default rate of 2%. How much should the bank plan to raise in order to avoid liquidity problems?

A. $500 million

B. $510 million

C. $508 million

D. $550 million

Correct Answer: B

QUESTION 5

Which one of the following four attributes would likely help a trader using exchange-traded options to establish a leveraged position?

A. Higher degrees of exposure at less cash cost

B. Unlimited losses for long option positions

C. Option positions have the same credit risks as a margined long forward.

D. Option positions have the same cash risks as a margined short futures purchase.

Correct Answer: A

QUESTION 6

A risk manager is analyzing a call option on the GBP with a vega of 0.02. When the perceived future volatility increases by 1%, the call option

A. Increases in value by 0.02.

B. Increases in value by 2.

C. Decreases in value by 0.02.

D. Decreases in value by 2.

Correct Answer: A

QUESTION 7

A corporate bond gives a yield of 6%. A same maturity government bond yields 2%. The probability of the corporate bond defaulting is 2.5%. In case of default, investors expect to lose 60% of their investment. The risk premium in the credit spread is:

A. 1.5%

B. 4.5%

C. 2.5%

D. 0.5%

Correct Answer: C

QUESTION 8

Oliver McCarthy owns a portfolio of bonds. Which of the following choices equals the modified duration of Oliver\\'s portfolio?

A. Minimum of the modified durations of the component bonds

B. Value-weighted average modified duration of the component bonds

C. Coupon-weighted average modified duration of the component bonds

D. Maximum of the modified durations of component bonds

Correct Answer: B

QUESTION 9

What is the order in which creditors and shareholders get repaid in the event of a bank liquidation?

A. Depositors, shareholders, debt holders.

B. Debt holders, depositors, shareholders.

C. Depositors, debt holders, shareholders.

D. Depositors, shareholders, depositors.

Correct Answer: C

QUESTION 10

A credit associate extending a loan to an obligor suspects that the obligor may change his behavior after the loan has been originated. The obligor in this case may use the loan proceeds for purposes not sanctioned by the lender, thereby increasing the risk of default. Hence, the credit associate must estimate the probability of default based on the assumptions about the applicability of the following tendency to this lending situation:

A. Speculation

B. Short bias

C. Moral hazard

D. Adverse selection

Correct Answer: C

QUESTION 11

Which one of the following four exercise features is typical for the most exchange-traded equity options?

A. Asian exercise feature

B. American exercise feature

C. European exercise feature

D. A shout option exercise feature

Correct Answer: B

QUESTION 12

Bank Sigma has an opportunity to do a securitization deal for a credit card company, but has to retain a portion of the residual risk of the deal with an estimated VaR of $8 MM. Its fees for the deal are $2 MM, and the short-term financing costs are $600,000. What would be the RAROC for this transaction?

A. 25%

B. 17.5%

C. 33%

D. 12%

Correct Answer: B

QUESTION 13

Returns on two assets show very strong positive linear relationship. Their correlation should be closest to which of the following choices?

A. 15%

B. 45%

C. 60%

D. 100%

Correct Answer: D

QUESTION 14

Which one of the following four models is typically used to grade the obligations of small- and medium-size enterprises?

A. Causal models

B. Historical frequency models

C. Credit scoring models

D. Credit rating models

Correct Answer: C

QUESTION 15

Which one of the following four alternatives lists the three most widely traded currencies on the global foreign exchange market, as of April 2007, in the decreasing order of market share? EUR is the abbreviation of the European euro, JPY is for the Japanese yen, and USD is for the United States dollar, respectively.

A. JPY, EUR, USD

B. USD, EUR, JPY

C. USD, JPY, EUR

D. EUR, USD, JPY

Correct Answer: B