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QUESTION 1

A risk associate is trying to determine the required risk-adjusted rate of return on a stock using the Capital Asset Pricing Model. Which of the following equations should she use to calculate the required return?

A. Required return = risk-free return + beta x market risk

B. Required return = (1-risk free return) + beta x market risk

C. Required return = risk-free return + beta x (1 ?market risk)

D. Required return = risk-free return + 1/beta x market risk

Correct Answer: A

QUESTION 2

Which of the following statements explain how securitization makes the retail assets highly liquid and the balance sheet easier to manage?

I. By securitizing assets any lack of capital can be accommodated by selling the securitized bonds.

II. Any need to diversify credit risk can be achieved by selling bank\\'s own securitized bonds and buying other bonds that increase diversification.

III.

Securitization could be used to promote hedging by using limited market instruments.

A.

I, II

B.

I, II, III

C.

II, III

D.

II

Correct Answer: A

QUESTION 3

Changes to which one of the following four factors would typically not increase the cost of credit?

A. Increasing inflation rates in a country.

B. Increase in consumption of goods and services.

C. Higher risk premium on a fixed income instrument.

D. Higher return earned on alternative investments.

Correct Answer: C

QUESTION 4

Bank Sigma takes a long position in the oil futures market that requires a 2% margin, i.e., the bank has to deposit 2% of the value of the contract with the broker. The futures contracts were priced at $50 per barrel (bbl) at inception, and rose by $5 to $55. The VaR on the position is estimated to be $10. What is the return on this transaction on a risk adjusted basis?

A. 50%

B. 10%

C. 500%

D. 20%

Correct Answer: A

QUESTION 5

Which one of the four following statements about technology systems for managing operational risk event data is incorrect?

A. Operational risk event databases are always integrated with the other components of the operational risk management program.

B. Operational risk loss event data collection software can be internally developed.

C. Operational risk event databases are independent elements of the operational risk management framework.

D. The implementation of a new operational risk event loss database has to incorporate an analysis of the advantages and disadvantages of external systems.

Correct Answer: A

QUESTION 6

A credit portfolio manager analyzes a large retail credit portfolio. Which of the following factors will represent typical disadvantages of market-linked credit risk drivers?

I. Need to supply a large number of input parameters to the model

II. Slow computation speed due to higher simulation complexity

III. Non-linear nature of the model applicable to a specific type of credit portfolios

IV.

Need to estimate a large number of unknown variable and use approximations

A.

I

B.

I, II

C.

II, III

D.

III, IV

Correct Answer: B

QUESTION 7

A bank has a Var estimate of $100 million. It is considering a new transaction which has a correlation of

0.35 with the current portfolio and a standalone VaR estimate of $5 million. What would be the new VaR for the bank if it carried out the transaction?

A. $105 million

B. $101.86 million

C. $100.22 million

D. $ 213.67 million

Correct Answer: B

QUESTION 8

Which of the following statements depicts a difference between funding liquidity risks and trading liquidity risks?

A. Funding liquidity risks are associated with how fast prices move in the market while trading liquidity risks originate out of bank trades.

B. Funding liquidity risks are concerned with the ability of the bank to fund deposits withdrawals while trading liquidity risks are concerned with the change in bid-offer spreads of asset values.

C. Funding liquidity risks are short term risks while trading liquidity risks are longer term risks.

D. Funding liquidity risks are associated only with the bank assets while trading liquidity risks are associated with both assets and liabilities of the bank.

Correct Answer: B

QUESTION 9

In hedging transactions, derivatives typically have the following advantages over cash instruments:

I. Lower credit risk

II. Lower funding requirements

III. Lower dealing costs

IV.

Lower capital charges

A.

I, II

B.

I, III

C.

II, IV

D.

I, II, III, IV

Correct Answer: D

QUESTION 10

Which one of the following four statements correctly defines credit risk?

A. Credit risk is the risk that complements market and liquidity risks.

B. Credit risk is a form of performance risk in contractual relationship.

C. Credit risk is the risk arising from execution of a company\\'s strategy.

D. Credit risk is the risk that summarizes the exposures a company or firm assumes when it attempts to operate within a given field or industry.

Correct Answer: B

QUESTION 11

According to Basel II what constitutes Tier 3 capital?

A. Subordinated debt issues that pay interest.

B. Debt capital that can only be used to support market risk in the trading book of the bank.

C. Preference shares that confer on issuers the right to defer payment of a fixed dividend.

D. Hybrid debt capital instruments that are similar to equity.

Correct Answer: B

QUESTION 12

To estimate the responsiveness of a particular equity portfolio to the overall market, a trader should use the portfolio\\'s

A. Alpha

B. Beta

C. CVaR

D. VaR

Correct Answer: B