2016-FRR^{Q&As}

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which one of the following four statements does identify correctly the relationship between the value of an option and perceived exchange rate volatility?

A. With increases in perceived future foreign exchange volatility, the value of all foreign exchange

B. As the perceived future foreign exchange volatility decreases, the value of all options increases.

C. As the perceived future foreign exchange volatility increases, the value of all options increases.

D. Option values can only change due to the factors related to the demand for specific options

Correct Answer: C

QUESTION 2

A bank has a large number of auto loans and would prefer to sell them to raise cash for more funding. However, selling individual auto loans is difficult. What could the bank do?

A. Package the loans into a securitized vehicle and sell the low risk portion of the portfolio.

B. Obtain a stronger credit rating so that the bank could borrow at a cheaper rate.

C. Set up a marketing team to sell individual loans to investors.

D. Merge with another bank.

Correct Answer: A

QUESTION 3

Which one of the following four global markets for financial assets or instruments is widely believed to be the most liquid?

A. Equity market.

B. Foreign exchange market.

C. Fixed income market

D. Commodities market

Correct Answer: B

QUESTION 4

Gamma Bank provides a $100,000 loan to Big Bath retail stores at 5% interest rate (paid annually). The loan is collateralized with $55,000. The loan also has an annual expected default rate of 2%, and loss given default at 50%. In

this case, what will the bank\\'s expected loss be?

A. $500

B. $750

C. $1,000

D. $1,300

Correct Answer: A

QUESTION 5

Which of the following are typical properties of a statistical distribution of potential losses that a bank might sustain over a period of time?

I. The range of possible losses above the average loss is much greater than those below the average loss.

II. The loss that is most likely to occur is below the average loss.

III.

 The loss that is most likely to occur is above the average loss.

A.

II

B.

I, II

C.

I, III

D.

III

Correct Answer: A