2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which one of the following four statements about economic capital of a bank is correct?

A. Economic capital measures how the economy is doing compared to the bank.

B. Economic capital reflects the possible losses that could occur based on the bank\\'s own estimates of the risks it is taking.

C. Economic capital is determined by rules imposed by an external authority.

D. Economic capital is the present value of the earnings generated by the bank in the future.

Correct Answer: B

QUESTION 2

By foreign exchange market convention, spot foreign exchange transactions are to be exchanged at the spot date based on the following settlement rule:

A. One-day rule

B. Two-day rule

C. Three-day rule

D. Four-day rule

Correct Answer: B

QUESTION 3

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 4

For two variables, which of the following is equal to the average product of the deviations from their respective means?

A. Standard deviation

B. Kurtosis

C. Correlation

D. Covariance

Correct Answer: D

QUESTION 5

Which one of the following four metrics represents the difference between the expected loss and unexpected loss on a credit portfolio?

A. Credit VaR

B. Probability of default

C. Loss given default

D. Modified duration

Correct Answer: A