



2016-FRR^{Q&As}

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QUESTION 1

Which of the following are conclusions that could be drawn from the shape of the statistical distribution of losses that a bank might incur over a future time period?

- I. In most years a bank would look more profitable than it will be on average.
 - II. Most of the time a sufficiently well capitalized bank will appear over-capitalized.
 - III. Bad years do not come along very often, but when they do they lead to enormous losses.
- A.
 - I, II
 - B.
 - I, III
 - C.
 - II, III
 - D.
 - I, II, III

Correct Answer: D

QUESTION 2

Bank Milo 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 what days does the bank face negative cumulative liquidity?

- A. Day 3 only.
- B. Days 2 and 3.
- C. Day 2 only.
- D. Days 1, 2 and 3.

Correct Answer: B

QUESTION 3

A hedge fund trader buys options to establish an exposure in the currency market, thereby effectively removing the risk



of being able to participate in a gapping market. In this case the options premium represents the price paid for eliminating the execution risk of

- A. The delta-hedging strategy.
- B. The gamma-hedging strategy.
- C. The vega-hedging strategy.
- D. The theta-hedging strategy.

Correct Answer: A

QUESTION 4

For a bank a 1-year VaR of USD 10 million at 95% confidence level means that:

- A. There is a 5% chance that the bank would lose less than USD 10 million in a year.
- B. There is a 5% chance that the bank would lose more than USD 10 million in a year.
- C. There is a 5% chance that the worst loss would be USD 10 million in a year.
- D. There is a 5% chance that the least loss would be USD 10 million in a year.

Correct Answer: B

QUESTION 5

Which one of the following four interest rate related yield curves is used to revalue loan and deposit positions in banks?

- A. Derivative
- B. Bond
- C. Cash
- D. Basis

Correct Answer: C

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