2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

A risk manager has a long forward position of USD 1 million but the option portfolio decreases JPY 0.50 for every JPY 1 increase in his forward position. At first approximation, what is the overall result of the options positions?

A. The options positions hedge the forward position by 25%.

B. The option positions hedge the forward position by 50%.

C. The option positions hedge the forward position by 75%.

D. The option positions hedge the forward position by 100%.

Correct Answer: B

QUESTION 2

To achieve leverage in long positions, a bank can use the following strategy:

I. Securities may be purchased with borrowed funds using a bank loan from the broker.

II. Securities may be borrowed on margin by taking a loan from a broker.

III. Securities may be purchased and used in a repo transaction to generate cash for further security purchases.

IV.

The bank may enter into a derivative transaction, such as a total return swap, that requires little to no collateral but mimics the performance of a long or short position in the underlying instrument.

A.

I, II

B.

I, III

C.

II, IV

D.

I, II, III, IV

Correct Answer: D

QUESTION 3

Which one of the following four statements correctly defines chooser options?

A. The owner of these options decides if the option is a call or put option only when a predetermined date is reached.

B. These options represent a variation of the plain vanilla option where the underlying asset is a basket of currencies.

C. These options pay an amount equal to the power of the value of the underlying asset above the strike price.

D. These options give the holder the right to exchange one asset for another.

Correct Answer: A

QUESTION 4

Which of the following reports have been suggested by the FDIC that banks should produce in addition to the usual probabilistic analysis and stress tests in order to gauge liquidity issues?

I. Cash flow gaps

II. Funding availability

III.

Critical assumptions used in credit projections

A.

I, II

B.

I, II, III

C.

I

D.

I, III

Correct Answer: B

QUESTION 5

Which one of the following four option types has two strike prices?

A. Asian options

B. American options

C. Range options

D. Shout options

Correct Answer: D