2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

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 2

Which one of the following four formulas correctly identifies the expected loss for all credit instruments?

A. Expected Loss = Probability of Default x Loss Given Default x Exposure at Default

B. Expected Loss = Probability of Default x Loss Given Default + Exposure at Default

C. Expected Loss = Probability of Default x Loss Given Default - Exposure at Default

D. Expected Loss = Probability of Default x Loss Given Default / Exposure at Default

Correct Answer: A

QUESTION 3

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% change of default on a one-year no-payment of USD $1 million, including interest and principal repayment. The bank charges 3% interest rate spread to firms in the machinery industry, and the risk-free interest rate is 6%. Alpha Bank receives both interest and principal payments once at the end the year. Delta can only default at the end of the year. If Delta defaults, the bank expects to lose 50% of its promised payment. What interest rate should Alpha Bank charge on the no-payment loan to Delta Industrial Machinery Corporation?

A. 8%

B. 9%

C. 10%

D. 12%

Correct Answer: C

QUESTION 4

To estimate the forward price of oil, a commodity trader would most likely use the following pricing relationship:

A. Oil forward price = Expected future oil price ?Oil market risk premium

B. Oil forward price = Expected future oil price ?storage cost + Oil market risk premium

C. Oil forward price = Expected future oil price ?Oil storage cost + (1 + Oil market risk premium)

D. Oil forward price = Expected future oil price ?Oil storage cost + (1 - Oil market risk premium)

Correct Answer: A

QUESTION 5

A bank customer chooses a mortgage with low initial payments and payments that increase over time because the customer knows that she will have trouble making payments in the early years of the loan. The bank makes this type of mortgage with the same default assumptions uses for ordinary mortgages, thus underestimating the risk of default and becoming exposed to:

A. Moral hazard

B. Adverse selection

C. Banking speculation

D. Sampling bias

Correct Answer: B