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QUESTION 1

A multinational bank just bought two bonds each worth $10,000. One of the bonds pays a fixed interest of 5% semi-annually and the other pays LIBOR semi-annually. The six month LIBOR is at 5% currently. The risk manager of the bank is concerned about the sensitivity to interest rates. Which of the following statements are true?

A. The price of the bond paying floating interest is more sensitive to interest rates than the bond paying fixed interest.

B. The price of the bond paying fixed interest is more sensitive to interest rates than the bond paying floating interest.

C. Both bond prices are equally sensitive to interest rates.

D. The given information is not enough to determine the sensitivity of the bond prices.

Correct Answer: B

QUESTION 2

James Johnson purchased a plain vanilla bond that has modified duration of 10 and convexity of 0.5. If yields increase by 1%, its modified duration is expected to

A. increase by 0.5.

B. increase by 1.5.

C. decrease by 0.5.

D. decrease by 1.5.

Correct Answer: C

QUESTION 3

Which one of the following four statements correctly defines credit risk?

A. Credit risk is the risk that complements market and liquidity risks.

B. Credit risk is a form of performance risk in contractual relationship.

C. Credit risk is the risk arising from execution of a company\\'s strategy.

D. Credit risk is the risk that summarizes the exposures a company or firm assumes when it attempts to operate within a given field or industry.

Correct Answer: B

QUESTION 4

Which of the following statements presents an advantage of using risk and control self- assessments (RCSA) in the operational risk framework?

A. RCSA provides very accurate scoring of risks and controls due to its subjective nature.

II. RCSA program provides insight into risks that exist in a firm, but that may or may not have occurred before.

III. RCSA program can produce biased but transparent operational risk reporting.

IV. RCSA program allows each department to take ownership of its own risks and controls.

B. I and III

C. II and IV

D. I, II and III

E. II, III, and IV

Correct Answer: B

QUESTION 5

When considering the advantages of operational risk function owned by the Chief Compliance Officer in a financial institution, an operational risk manager consultant suggests that this governance approach will have all of the following advantages except:

A. This governance structure maintains an independent operational risk function.

B. The operational risk function is closely linked in a partnership with the compliance function to leverage data and assessment activities.

C. The operational risk function quickly inherits an existing reporting structure, established meeting schedules and functional reporting cycles from the compliance function.

D. In accordance with Basel II Accord, the operational risk function should report directly into the audit function and strengthen that function.

Correct Answer: D