2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

An options trader is assessing the aggregate risk of her currency options exposures. As an options buyer, she can potentially ___ lose more than the premium originally paid. As an option seller, however, she has a ___ risk on the contract and always receives a premium.

A. Never, unlimited

B. Sometimes, unlimited

C. Never, limited

D. Sometimes, limited

Correct Answer: A

QUESTION 2

The data available to estimate the statistical distribution of bank losses is difficult to assemble for which of the following reasons?

I. The needed data is vast in quantity.

II. The data requires bringing together significantly different measures of risk.

III.

Some risks are difficult to quantify and hence the data might involve subjective elements.

A.

I, II

B.

I, III

C.

II, III

D.

I, II, III

Correct Answer: C

QUESTION 3

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 4

Present value of a basis point (PVBP) is one of the ways to quantify the risk of a bond, and it measures:

A. The change in value of a bond when yields increase by 0.01%.

B. The percentage change in bond price when yields change by 1 basis point.

C. The present value of the future cash flows of a bond calculated at a yield equal to 1%.

D. The percentage change in bond price when the yields change by 1%.

Correct Answer: A

QUESTION 5

A large energy company has a recurring foreign currency demands, and seeks to use options with a payoff based on the average price of the underlying asset on either a few specific chosen dates or all dates within a specific pricing window. Which one of the following four option types would most likely meet these specific foreign currency demands?

A. American options

B. European options

C. Asian options

D. Chooser options

Correct Answer: C