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QUESTION 1

A key function of treasuries in commercial/retail banks is:

A. To manage the interest margin of the banks.

II. To focus on underwriting risk.

III. To ensure strong earnings.

IV. To increase profit margins.

B. I

C. II

D. II, III

E. III, IV

Correct Answer: A

QUESTION 2

A risk associate is trying to determine the required risk-adjusted rate of return on a stock using the Capital Asset Pricing Model. Which of the following equations should she use to calculate the required return?

A. Required return = risk-free return + beta x market risk

B. Required return = (1-risk free return) + beta x market risk

C. Required return = risk-free return + beta x (1 ?market risk)

D. Required return = risk-free return + 1/beta x market risk

Correct Answer: A

QUESTION 3

Gamma Bank provides a $100,000 loan to Big Bath retail stores at 5% interest rate (paid annually). The loan is collateralized with $55,000. The loan also has an annual expected default rate of 2%, and loss given default at 50%. In this case, what will the bank\\'s expected loss be?

A. $500

B. $750

C. $1,000

D. $1,300

Correct Answer: A

QUESTION 4

Typically, which one of the following four option risk measures will be used to determine the number of options to use to hedge the underlying position?

A. Vega

B. Rho

C. Delta

D. Theta

Correct Answer: C

QUESTION 5

To protect the oranges harvest price level, a farmer needs to take a hedge position. Provided that he produces the amount he hedged, which one of the following four strategies will allow the farmer to accomplish his goal?

A. Going short on oranges futures contracts

B. Going long on oranges futures contacts

C. Entering into a customized forward contract with the bank

D. Negotiating a credit line facility

Correct Answer: A