DUMPSARENA

Financial Risk and Regulation (FRR) Series

GARP 2016-FRR

Version Demo

Total Demo Questions: 15

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Topic Break Down

Topic	No. of Questions
Topic 1, Volume A	99
Topic 2, Volume B	100
Topic 3, Volume C	143
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QUESTION NO: 1

For a bank a 1-year VaR of USD 10 million at 95% confidence level means that:

A. There is a 5% chance that the bank would lose less than USD 10 million in a year.

B. There is a 5% chance that the bank would lose more than USD 10 million in a year.

C. There is a 5% chance that the worst loss would be USD 10 million in a year.

D. There is a 5% chance that the least loss would be USD 10 million in a year.

ANSWER: B

QUESTION NO: 2

By lowering the spread on lower credit quality borrowers, the bank will typically achieve all of the following outcomes EXCEPT:

A. Aggressively courting of new business

B. Lower probability of default

C. Rapid growth

D. Higher losses in case of default

ANSWER: B

QUESTION NO: 3

Which of the following statements about parametric and nonparametric methods for calculating Value-at-risk is correct?

A. Parametric methods generally assume returns are normally distributed, and non-parametric methods make no assumptions about return distributions.

B. Parametric methods make no assumptions about return distributions, and non-parametric methods assume returns are normally distributed.

C. Both parametric and nonparametric methods assume returns are normally distributed.

D. Both parametric and nonparametric methods make no assumptions about return distributions.

ANSWER: A

QUESTION NO: 4

Mega Bank has $100 million in deposits on which it pays 3% interest, and $20 million in equity on which it pays no interest. The loan portfolio of $120 million earns an average rate of 10%. If the rates remain the same, what is the net interest income of Mega Bank?

A. $2 million per year

B. $5 million per year

C. $9 million per year

D. $12 million per year

ANSWER: C

QUESTION NO: 5

Which of the following factors are typically included in standard operational risk definitions?

I. Human errors

II. Process failure

III. Systems failure

IV. Unexpected events

A. I and II

B. I and IV

C. II and III

D. I, II and III

E. Human errors

II. Process failure

III. Systems failure

IV. Unexpected events

ANSWER: D

Explanation:

QUESTION NO: 6

Which one of the following four models is typically used to grade the obligations of small- and medium-size enterprises?

A. Causal models

B. Historical frequency models

C. Credit scoring models

D. Credit rating models

ANSWER: C

QUESTION NO: 7

Bank Alpha is making a decision about lending 10-year loans in a sector that is fairly illiquid and is looking at various options to fund the loans. Which of the following options to fund the loans exhibits the most exogenous liquidity risk?

A. Overnight interbank markets

B. The 6-month LIBOR markets

C. The 1-year treasury markets

D. Foreign exchange markets

ANSWER: A

QUESTION NO: 8

The Sarbanes-Oxley Act includes one of the following four requirements for financial institutions in the United States:

A. Risk and control requirements

B. Market discipline requirements

C. Capital allocation requirements

D. Regulatory response to systemic risk requirements

ANSWER: A

QUESTION NO: 9

Of all the risk factors in loan pricing, which one of the following four choices is likely to be the least significant?

A. Probability of default

B. Duration of default

C. Loss given default

D. Exposure at default

ANSWER: B

QUESTION NO: 10

Which one of the following four statements regarding counterparty credit risk is INCORRECT?

A. Counterparty credit risk refers to the inability to realize gains in a contract with a counterparty due to its default.

B. The exposure at default is variable due to fluctuations in swap valuations.

C. The exposure at default can be negatively correlated to probability of default.

D. Dynamic collateral provisions often increase counterparty risk considerably.

ANSWER: B

QUESTION NO: 11

Which of the following statements about the option gamma is correct? Gamma is the

I. Second derivative of the option value with respect to the volatility.

II. Percentage change in option value per percentage change in the price of the underlying instrument.

III. Second derivative of the value function with respect to the price of the underlying instrument.

IV. Rate of change of the option delta with respect to changes in the underlying price.

A. I only

B. II and III

C. III and IV

D. II, III, and IV

E. Second derivative of the option value with respect to the volatility.

II. Percentage change in option value per percentage change in the price of the underlying instrument.

III. Second derivative of the value function with respect to the price of the underlying instrument.

IV. Rate of change of the option delta with respect to changes in the underlying price.

ANSWER: C

QUESTION NO: 12

Which one of the four following non-statistical risk measures are typically not used to quantify market risk?

A. Option sensitivities

B. Net closed positions

C. Convexity

D. Basis point values

ANSWER: B

QUESTION NO: 13

In the United States, stock investors must comply with the Regulation T of the Federal Reserve Bank and may borrow up to of the value of the securities from their brokers.

A. 30%

B. 40%

C. 50%

D. 60%

ANSWER: C

QUESTION NO: 14

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)

ANSWER: A

QUESTION NO: 15

A risk analyst is considering how to reduce the bank's exposure to rising interest rates. Which of the following strategies will help her achieve this objective?

I. Reducing the average repricing time of its loans

II. Increasing the average repricing time of its deposits

III. Entering into interest rate swaps

IV. Improving earnings capacity and increasing intermediated funds

A. I, II

B. III

C. IV

D. I, II, IV

E. Reducing the average repricing time of its loans

II. Increasing the average repricing time of its deposits

III. Entering into interest rate swaps

IV. Improving earnings capacity and increasing intermediated funds

ANSWER: D