# Chapter 15 study guide for content mastery solutions answers

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The first part samplesQuestion 001 of the following statements, select one (s) and this is (is) probably true with regard to the loan portfolio: i) reducing the recovery rate + increasing the default probability = increase distal lossii) increase the probability of default = increased default lossiii) reduce the recovery rate + reduce the default probability = expected loss = ib) only iiC) i and IIE only), and iiiANSWERAll three will lead to an increase in the expected loss! Reducing the recovery rate + increase the default probability = increase dissonted loss in excess of the recovery rate + increase the default probability = increase dissonted probability + reduce the default probability = expected loss increaseThus, the correct answer is F.Note: increased recovery rate + decrease of default probability will lead to a decrease in the expected loss. Question 002 What is the following, if any, true?i) Value at risk, VaR, is not a measure of negative risk) value at risk, VaR, is the minimum loss at a certain confidence level over a certain period of timeiii) value at risk, Va R, do not capture catastrophic losses that have a small probability of occurring(i only) i and ii onlyC) i and iii only(ii) ii and iii onlyE) iii onlyF) none of aboveANSWERMEMBER to read and reread questions in your test! Here, we are asked to identify options that are correct. The value in the case of risk, VaR, is a measure of downside risk. It can also be considered the maximum loss at a certain level of confidence over a certain period of time. VaR, do not capture catastrophic losses that have little likelihood of occurrence. It is also true that since most companies are more concerned about unexpected loss, the frequently used risk measure is Value-at-Risk.Daily VaR becomes meaningless if there is no liquid, the correct answer is E.Question 003 asking you to consider the following statement: a comprehensive and integrated key management framework that risks achieving business objectives, reducing unexpected profit fluctuations and maximizing fixed value. This statement can be described as one that is to address: a) commercial risk managementB) corporate risk management) methodological risks Irregular risk management e) Risk Management volatility) none of the above answeron your way to becoming a financial risk manager, and many topics and definitions will pop up over and over again over time. Corporate Risk Management (ERM) is a comprehensive and integrated key risk management framework for achieving business objectives, reducing unexpected profit fluctuations and maximizing company value. Thus, the correct answer is B.Question 004 from your knowledge of arbitration opportunities select any of the following false options:i) non-risky profits can be made with arbitrageii(trades are made mainly at the same timeiii) you are not required to have capital) arbitrage involves simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of different prices for the same assets. a) I and ii-i-qb) ii and only the third c) i, second and fourth only D) I and 4 e) I, second and third only F) none of aboveanswerRemember, ask you to choose a false answer (s). It is true that: profits can be made without risk with arbitrageTrades essentially simultaneously does not ask Orbitagurs to be capitalThus, and the correct answer is F.By definition: arbitrage involves simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of the different prices of the same asset. Question 005 of the options presented below, which, if any, do you say is the most accurate statement/s?i) the capital market line can only be applied to efficient portfolios.ii) the capital allocation line can only be applied to efficient portfolios.3) The capital market line can be applied to the individual assets of the investor and the capital allocation line can be applied to the investor's assets. Individual A) only b) i and III only c) ii and only fourth d) ii and onlyf) i and iianswer onlyRemember, asks you to find the most accurate statement/s, GARP certainly test your limits on definitions and understanding, so you should be careful at all times in your FRM test. The Capital Market Line (CML) is a line used in the capital asset pricing model to illustrate the rates of return on effective portfolios based on the risk-free rate of return and the level of risk (standard deviation) of a particular portfolio. CML can only be applied to effective portfolios (i.e. no non-systematic risks) and not to the individual assets of the investor. The Capital Allocation Line (CAL) is a line created in a graph of all possible sets of risk-free assets. Also known as the reward-to-change ratio. Financial accounts can only be applied to effective portfolios (i.e. no non-systematic risk) and not to the individual assets of the investor. So, the correct answer is F.Question You are told that daily, 90% confidence level, the value at risk of a portfolio is $100,000, then you expect that:i) 9 out of 10 times, the value of the wallet will lose more than $100,000.ii) 1 out of 10 times, Expect the wallet to lose $100,000 or less.3) 9 out of 10 times, you will lose the value of the wallet less than $100,000.iv) 1 of 10 times expect to lose the wallet $100 thousand or more. a) i only second only C) only third) I and only secondeE) third and fourth only F) iv onlyANSWERWe are said to be daily, 90% confidence level, and the value in the portfolio risk is $1,000,000. Thus, we expect that: 9 out of 10 times (i.e. 90% of the time) the value of the wallet will lose less than $100,000. Thus, the correct answer is E.We note: value at risk, VaR, is a measure of negative risk. It can also be considered the maximum loss at a certain level of confidence over a certain period of time. VaR, do not capture catastrophic losses that have little likelihood of occurrence. It is also true that since most companies are more concerned about unexpected loss, the risk metric used frequently is the value in Risk.Daily VaR becomes meaningless if there is illiquidityQuestion 007Consider your knowledge of value at risk (VaR) and select phrases that are most likely true.i) value will increase at risk once periods of holdings become longer2) value at risk will decrease once probability levels will become less iii) value at risk cannot be calculated using the historical proceeds of the portfolioA) only ii)ii) 3 only i and iie only) i and III onlyF) II and III OnlyF only i, ii and iiiH) none of the aboveANSWERThe is considered to be correct: the value at risk will increase once the periods of holdings become longer values at risk will increase once the probability levels will become less Valuable-at-Risk can be calculated using historical returns of the portfolio, and the correct answer is A.008Consider your knowledge of t-student distribution and the most accurate data below :i) Student T form for distribution will become less similar to that of the standard normal distribution as the degree of freedom ii) student form is considered t distribution to be lower peak compared to the third normal distribution) student T distribution has more space under its tails compared to the normal Distributioniv) there are three factors to choose from when choosing the appropriate distribution: 1) whether the population variation is known, 2) whether the distribution is normal and 3) what is the sample size) i and iiB only) and iii onlyC) i, ii and iii onlyD) i, ii and iv onlyE) i, III and iv onlyF) II, 3rd and 4th only G)i, ii, iii and ivH) Considered to be true: Student T form distribution will become more similar than that of the standard normal distribution as increases the degrees of freedom form student T distribution is considered to be lower peak compared to the normal distribution that student T distribution has more space under its tailscompared to the normal distributionIt three factors to choose from when choosing the appropriate distribution: 1) Whether the population variation is known, 2) whether the distribution is normal and 3) what is the size of the sampleThus, the correct answer is F.Question. 009Consider your knowledge of regression analysis. By knowing which of the following is (is) probably correct:i) having a positive serial link will lead to t values becoming larger) having a negative serial link will occur once -ve error in one given the observation increased the probability of +ve error happening to anotheriii) type II errors Can be developed as a result of the presence of positive serial linkA (i onlyB) ii onlyC) iii onlyD) i and ii onlyE) i and iii onlyF) i and iii onlyF) II and III only G) i, ii and IIIH) none of the The following aboveANSWERThe following is considered correct: the presence of a positive serial link will lead to t values becoming larger having a negative serial link will occur once a single error +ve in one particular note increase the likelihood of an error ve occurs for other type I errors may be developed as a result of the presence of positive serial linksThus, the correct answer is A.Question00ask asking you to determine whether one particular stock is traded frequently in the market is from the greater fluctuations of another particular stock that also trades often. As a result of this request, you collect data on both securities, using their prices to create sample variation. Under these circumstances, which of the following method is considered the most appropriate method for conducting such a test has been identified. a) F-TestB( t-TestC), q-TestD, Z-TestE and TestF box chi (TestG duo) is unable to determine from the information given SWERWe will use 'F-test' in testing the difference of two samples' contrast. Thus, the correct answer is A.Question 011 of the following given options, identifying those that can be classified as 'linear' or even 'near linear' .i' Swapsii (Forwardsiii) Futuresiv)Optionssa) i and ii onlyB)i and IIIC only) i, Ii and iii and iii onlyE) i, iii and iv onlyF) ii, iii and iv onlyG) i, ii, iii and ivH): Thus, the correct answer is C.Please note that the options are usually not linear. Question 012Consider your knowledge of the central limit theory. assuming that the census variation is unknown and Of the sample taken is 31, a suitable test to determine the average sample will be: i) and t testii) and z-testiii) and f-testa)i onlyB) only 3) i and onlye) i and iii onlyF) ii and iii onlyF) ii and iii only g) i, ii and iii and iiiH) none of the aboveanswer the assumption that the population variation is unknown and the size of the sample taken is 31, suitable test to determine the average will be Thus, the correct answer is D.We note: according to the central limit theory, the z test may be used if the population is large enough (i.e. n. ≥ 30), even if the unknown contrast sample size gets larger, both t-and z-distributions will converge (so either test is enough), the test T is considered a more conservative estimate of 013Determine any of the following options below can be considered as reasons for causing the yield curve to the upwards.i forecast slower inflation rates2) High interest ratesiii) expectations to improve credit risk expectations) investors preference maturities with short termsA) i) i and ii only B) i and III only C, i, ii and iii only D) i, ii and iv only e) i and iii and only ivF) ii, iii and only ivG) i, i, ii, iii and ivANSWERThe reasons can be considered to cause the yield curve to a downward slope: expectations of high inflationexpectations of higher interest rates expectations to improve credit riskbrokers who prefer maturities with short termspositive, the right answer G.Question 014Consider is your knowledge of FRAs (forward-rate agreements). From the specific options presented below, select what is mostly possible correct:A) forward rate agreement will not settle in cash. It will have interest rate risks only. FRAs may use to hedge risks related to uncertainty about receiving payments from a loan (floating rate). b) Settle the interest rate agreement in cash. It will have both interest rate risk as well as default risk. FRAs may not be used to hedge risks related to uncertainty about receiving payments from a loan (fixed interest rate). c) Settle the future interest rate agreement in cash. It will have both interest rate risk as well as default risk. FRAs may use to hedge risks related to uncertainty about receiving payments from a loan (floating rate). d) Do not settle a rate-looking agreement usually in cash. It's just going to have a hypothetical risk. FRAs may use risk-related hedging related to uncertainty about receiving payments from a loan (at a fixed rate). e) The advanced price agreement will not be settled in cash. It will have both interest rate risk as well as default risk. FRAs may use to hedge risks related to uncertainty about receiving payments from a loan (floating rate). and) settle a rate agreement or in cash. It will have all of the interest rate risks only. FRAs may be used to hedge risks related to uncertainty Receive payments from a loan (fixed rate). The FORWARD-Forward-Rate-Agreement will be settled in cash. It will have both interest rate risk as well as default risk. FRAs may use to hedge risks related to uncertainty about receiving payments from a loan (floating rate). While it may seem boring to go through all these details, it is understood that financial risk managers are expected to be experts on many topical issues in their field and you should always remember that you are judged against a very high international standard. Thus, the correct answer is C.Question 015Consider the scenario of a pension fund that has a portfolio of bonds (the fixed interest rate in nature). You are told that the duration of the portfolio is 4 years but the duration of the pension fund's obligations is up to 8 years. If the Fund Manager believes that interest rates will have a good chance of falling within the next few months, which of the following strategies will he want to follow to reverse the inequality in duration? a) Participate in swapping, receiving fixed while floating push. b) Participate in swapping, receiving floating while paying fixed. c) Participate in swapping, receiving a fixed while paying fixed. d) Selling USDE futures contracts) selling futures for sterling futuresF) none of the above answerin this example, we are faced with a fund that has a duration of its obligations exceeding that of its assets (i.e. its investment portfolio). As a result, if interest rates fall, the Fund's obligations will continue to obscure its assets, making the situation worse. Remember: Swap duration will be the difference in fixed duration and floating duration. Knowing this, by participating in a swap that will receive a fixed fund can then be increasing the duration of its portfolio to the point where it is even equal to its obligations, thereby reducing the risk of lower interest rates. If we enter into a fixed payment, such a measure would reduce the duration of the assets (making the situation worse when prices fall). If we look at futures, this procedure will also reduce the duration of the portfolio (and increase the current mismatch time). Thus, the correct answer is A.Question 016Consider your knowledge of option strategies. Of the following options given, select those that are most likely correct.i) strategy to buy both mode and call with strike prices that are different known as long throttle2) vertical spread is a term synonymous with having strike prices that are different.3) The strategy of selling a call at a relatively lower price strike and buying a call at a relatively higher price strike known as the short bull(iB) only II) i and iie) ii and IIIF only) i) , ii, the correct iiiANSWERThe: strategy to buy both mode & call with strike prices that are different Known as long throttleA vertical spread is a term synonymous with strike prices that vary. The strategy of selling a call at a relatively lower strike price & buying a call at a relatively higher strike price known as the short bull is therefore, the correct answer is F.Question 017 It is said that the investment manager sold 500 call option contracts each on 300 shares within Firm X, after a 60-day maturity at $3.00. Assuming that Delta option on one share unit is 0.42, determine the most appropriate action against the company's shares in order to hedge against exposure to the option and keep it in a neutral delta. a) 15,000 shares to be sold b) 15,000 shares to be purchased by C) 19,500 shares to be sold) 19,500 shares to be purchased E) 25,200 shares to be sold f) 25,200 shares to be purchased by the stock group) unable to determine from the information given FirstANSWERly, Determine the actual number of calls for a specified sale: # of calls = (200 contracts) X (300 units) = 60,000 callsAs result, this amount must be hedged: 60,000 x 0.42 = 25,200 stock unitsamount, 25,200 shares will have to be purchased to maintain a neutral delta position. Thus, the correct answer is F.Question 018Consider your knowledge of how the price of the option differs with the change in the price of the basic guarantee and determine which of the following statements is true:A) gamma will be at its lowest level (i.e. when Delta is the most sensitive) for short-term options that are in the money. Gamma will be the same for both calls as well as puts in BlackSc's pricing environmentB) Gamma will be at its highest level (i.e. when Delta is the least sensitive) for short-term options that are in the money. Gamma will be the same for both calls as well as puts in BlackSc environment pricing C) Gamma will be at its highest levels (i.e. when Delta is the most sensitive) for short-term options that are in the money. Gamma will be the same for both calls as well as puts in blackcoles pricing environment) Gamma will be at its lowest level (i.e. when Delta is the most sensitive) for long-term options that are in the money. Gamma will be different for both calls as well as puts in blacks pricing environment E) Gamma will be at its highest level (ie when Delta is the most sensitive) for short-term options that are in the money. Gamma will be different from all of the calls as well as puts in BlackSc's environmental pricing F) Gamma will be at its highest level (i.e. when Delta is the least sensitive) for long-term options that are in the money. It will be different from both calls as it puts in Black Scholes pricing environmentANSWERThe following is considered correct: Gamma will be at its highest level (i.e. when Delta is the most sensitive) for short-term options that are in the money. It's going to be gamma. For both calls as well as puts in BlackSc's pricing environment. Be sure to pay great attention to these topics in your FRM books, don't let simple concepts cost you valuable points in your exam! Thus, the correct answer is C.Question 019Consider your knowledge for how long. Of the following options, determining which of the following is (are) probably correct:i) we consider an effective duration to be approximate. This, as the calculation does not take into account the curvature of the yield price chart.2) interest rate risk and price volatility are directly relatedto iii) above the line, and the formula with regard to an effective duration will assume that rates up and down by the same base point (bps) amounts A only B) II only iii i) i and iie only) i and III onlyF) II and III only) and iii only, ii and iii iii is considered to be correct : Consider the effective duration to be rounded. This is, because the calculation does not take into account the curvature of the yield price chart. Interest rate risk and price volatility are directly related to the line, the formula with regard to an effective duration will assume that rates rise and fall at the same base point (bps) amountsThus, and the correct answer is G.Question 020Consider your knowledge of the stress test and determine which of the following is most likely healthier with regard to this financial instrument:i) stress test is considered to be very objectiveii) stress test is unable to compliment value in computationsiii risk) having more scenarios provided will help better understand the exposure of the risk portfolioA) i onlyB II only 3) i and ii onlyE(i and III onlyF) II and III OnlyG(ii, ii and iiiH) none of the following aboveanswerThe is considered correct with regard to stress test stress test is considered to be a very subjective stress test able to compliment value in risk calculations having more scenarios provided will not help to understand the risks in the portfolio (many scenarios will cause problems with interpretation) and so the correct answer is Your knowledge of H.part Ii Term structure, select which of the following is not likely to include negative interest rates 1) and Cco-Ingersoll Ross (CIR) Modelii) and Merton Modeliii) and lee modela (i) only secondc) only third) i and ii onlye) i and III only) II and III only) ii and iiih) none of aboveAnswer Cox-Ingerso Rossll (CIR) model, model, We will not see negative interest rates erase the Fsic model and the model is for me can theoretically give negative interest ratesThus, the correct answer is A.Question 022As senior risk officer Within your organization, you are asked to explain what exactly Coppola is. You correctly mention that:i) Coppola is a statistical measure representing multiple variables Copola will only study the dependence between two variables in each timeiii) singular function, Coppola will be able to link several securitiesA (i onlyB) II only)3) i and ii onlyE) i and IIIF) II and IIIOnlyG)i, ii and iiiH) none of the aboveANSWERTheis is considered to be correct: Coppola is a statistical measure representing a unified distribution multivariateCpula will examine the dependence or the link between multiple variables. As a unique function, Coppola will be able to link several securities thus, and the correct answer is E. Coppola is a statistical measure that represents a uniform multivariate distribution, which examines the correlation or dependence between multiple variables. Although the statistical calculation of coppola was invented in 1957, it was not applied to financial markets and finance until the late 1990s. Frm testing won't assure you much on certain dates of origin, however it won't be any harm to know a few of these in your career. Question 023Consider is a scenario in which trading occurs frequently in a particular commodity that is seasonal in nature. Of certain selections, determining which statement is the most likely to be correct:i) by employing an equally weighted estimated deficit (ES) tactic, a particular commodity seasonality will not be adequately captured) by employing an equally weighted value at risk (VaR) tactic, The seasonality of the given commodity will not be captured sufficiently by employing an equally weighted deficit (ES) tactic, the seasonality of the given item will be sufficiently captured by employing an equally weighted value tactic (VaR), and the given commodity.' It will be seasonal enough to capture a(i onlyB) II

only the third (only the fourth) i) i and ii onlyF) iii and iv onlyG)i and iv onlyH(II and III only) none of the above ANSWEREqual weights will present the same problem in both estimated deficit and value at risk, where there will be different risks associated with different seasons. The following is considered to be correct: by employing an equally weighted estimated deficit (ES) tactic, the seasonality of the given item will not be captured sufficiently by employing an equally weighted value at risk (VaR) tactic, the seasonality of the given item will not be captured sufficiently, the correct answer is e Question.024From your knowledge of methodologies Different simulations, select which of the following is/are the disadvantages of historical simulation: i) historical simulation results may include traces of shadowsii) may include shadow effects8) historical simulations are considered to be simplified in their natureA) i onlyB II only iii) i) i and ii only) i and iiiF) ii and iiiF) II and III i, ii and IIIH) none of the aboveANSWERThe are considered to be defects: historical simulation results may include effects of shadowshistorical simulations may include shadow effects, and the correct answer is D.Question 025Consider your knowledge of the international credit crisis, especially with regard to the model approach of origininess To the distribution of many banks during that period, and to determine which of the following data/is/correct.i) using the construction model for distribution, the methodological risk could have been reduced because the lower risk would be within banksii) mortgage builders faced the risk of warehouses and funds lost from this type of exposure. This was due to the fact that loans had to be kept on company budgets before they could take placeiii) many mortgage builders escaped bankruptcy during the financial crisisA) i only b ii) only the third c) only d and II only i and III ONLYF) II and III ONLYF only ii and iii) ii and iiig only) i, ii and iii) any of the above answerwas considered correct: a model originating to their distribution, the methodological risk may have been reduced as less within banks. This is a real statement, however, many banking institutions have decided to maintain risk during this period. Mortgage builders faced warehouse risk and lost money from this type of exposure. This is because loans had to be kept in corporate balance sheets before securitization was made. Many mortgage builders were bankrupted during the crisis because of the magnitude of the losses they suffered during this period. Thus, the correct answer is D.Question 026Limitations of credit quantitative analysis include: 1) Reliance on historical Dataii) Quality Dataiii(Over-ModellingA) i onlyB II Only C)3) i and ii onlyE)i and III onlyf only ii and III onlyF ii and III only(II) ii and iii onlyG) i, ii and IIIH) i from aboveANSWERLimitations of quantitative analysis Credit includes: Relying on historical datavalue of DataOver-ModellingUnder-Modellingdeception deception of future forecasts based on historical dataThus, the correct answer is G.Question 027Consider The following definition: the recovery rate, calculated as (1 - loss rate), is the extent to which the principal of the principal and interest due on non-performing debt can be recovered and expressed as a percentage of face value. The recovery rate can also be defined as the security value when it appears from the default. It is also noted that the loss rate is generally influenced by fluctuations in underlying assets or securities. In light of the above, determine which of the following is likely to carry the highest recovery rate. A) A hedge fund that is a high leverageB) hedge fund which is a low leverage (a company operating in a volatile emerging market) technology company specialized in High-demand asset manufacturing company F) is a specialized technology company in the emerging market) none of aboveANSWERThe higher recovery rate will be held by that institution whose assets are considered to be: material and what can easily be resold in case of default, the best answer is E.028Consider your knowledge of the Merton model as developed by Robert C. Merton and determine which of the following is/is most likely correct: employ the use of the Merton model, if all other criteria are fixed, the value of the sensitive debt credit will decrease as: 1) the company's valuation increases ii) advisory increases of the company 3) increases the maturity (i onlyB) II only C) 3 only di) i and ii onlyEE) i and iii only), ii and iiiff) none of the above AnswerEmploying use the Merton model, if all other criteria are fixed, the value of the sensitive debt Credit will go down as follows: The company's valuation increases the company's volatility increases maturity, and the correct answer is G.Question 029Financial Practice to assemble various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations (or other non-debt assets generating receivables) and the sale of related cash flows to third-party investors such as securities, which can be described as bonds, passsecurities, or secured debt obligations (CDOs) this is most likely defining as the definition of cash flows related to third-party investors such as securities, which can be described as bonds, pass securities, or secured debt obligations (CDOs) this is most likely a definition of the relevant cash flows to third-party investors such as securities, which can be described as bonds, passsecurities, or secured debt obligations (CDOs) this is most likely to define the relevant cash flows to third-party investors such as securities, which can be described as bonds, passsecurities, or secured debt obligations (CDOs). : A) SecuritizationC(SyndicationD) SyndicationD) Debt Referral) Debt Mortality) None of the above ANSWERSecuritization is the financial practice of pooling different types of contractual debt such as residential mortgages, commercial mortgages, Auto loans or credit card debt obligations (or other non-debt assets generating receivables) and sale of related cash flows to third-party investors such as securities, which can be described as bonds, securities passing through, or secured debt obligations (CDOs). The World Association of Risk Specialists will be keen on risk management concepts, given their recent highlight in global financial markets. Thus, the correct answer is B.Question 030Consider your knowledge of credit risk and various models that have been developed over the years to evaluate these risks, and then determine which of the following is/is most likely correct:i) the KMV model is based on the structural approach of the EDF account. It is best when applied to listed companies. This form also assumes that the company consists of debt and equity.ii) in CreditRisk + form each debtor has only two potential end-period, default and non-default. In the event of default, the lender suffers a loss of fixed volume; degrees as well. Given a set of forward credit spreads per degree, CreditMetrics can estimate the distribution on the change in the value of the mark to the market that is attributable to portfolio credit risk. A) i onlyB) ii onlyC) iii onlyD) i and ii onlyE(i and iii onlyF) II and III onlyG(i, ii and iiiH) none of aboveANSWERThe is considered correct: the KMV model is based on the structural approach to the EDF account (credit risk driven by the fixed value process). It is best when applied to listed companies, where the value of shares is determined by the stock market. In the KMV model, a complex financial structure is welcome. This model also assumes that the company consists of debts and shares. The CreditRisk+ model was originally developed by Credit Suisse Financial Products (CSFP) and is a virtual risk model. Each binding has only two possible end-period situations, default and non-default. In the event of default, the lender suffers a loss of fixed volume; CreditMetrics not only captures assumptions, but migrations across non-default estimates as well. Given a set of forward credit spreads per degree, CreditMetrics can estimate the distribution on the change in the value of the mark to the market that is attributable to portfolio credit risk. Thus, the correct answer is G.Question 031Determine which of the following is/correct with regard to loss risk distributions. Loss intensity distributions: i) bounded by +1ii) asymmetrical, after long tails to the left) should include large losses A(i OnlyB II) ONLY (III) only c) i and ii onlye) i and IIIF) ii and iii onlyG i, ii, ii and iiiH) none of the above distributions intensity of 1 0000000 The two-year-old son of a man is a man who is a man. The correct answer is C.032Determine which of the following is/considered correct:i) Market risk models usually rely on historical data) VaR operational risk models usually rely on analysis Scenarioiii) The rear test is considered to be a useful form of market risk verification Modelsiv) market risk models and operational risk models differ with regard to the time horizon used in the value calculation in RiskA) i and ii only b) i and III only C, i, ii and iii only, ii, only, ii, i, iv, i, iii and ivF) II, iii and IVF only, i. (iii and ivH) any of the above ANSWERThe is considered to be correct: Market risk models usually rely on DataOperational Risk VaR models usually based on an AnalysisBack-testing scenario that is a useful form of validation of market risk models Models Models models and operational risk models differ with regard to the time horizon used in the RiskThus value calculation, the correct answer is G.033With for Basel II Non-Advanced Methodology. Any of the following is most likely correct: a) a standard approach will include information from the last 1 year of the total income derived by the bank responsible for operating risk B) the consolidated approach will include information from last year's 2% of gross income to benefit from the bank's capital risk capital feesC) the consolidated approach will include information from the bank's total operating risk derivation) the standard approach will include information from the last 4 years of gross income to derive the bank's operating risk risk Capital charges) Standard Approach will include information from the last five years of gross income of the Bank's gross income capital charge F) Standard Policy will include information from the past 6 years of gross income to take advantage of the Bank's operating risk charge G) none of the following answeranswerthe following is considered correct the standard approach will integrate information from the past 3 years of gross income to derive the Bank's operating risk risk fees to others, the correct answer is C.034Determine none of the Next is /is probably correct:i) Eurodollar prices are the consideration for uncollected Depositsii) The Fed's money rate is the consideration for guaranteed loansiii) an increase in the spread of TED will cause the cost of bank borrowing to go downA) i only second) only secondC) only third) i and iiE) i and III onlyf) second and only third g) i, ii and iii) none of the above TheThe The consideration of uncollected deposits RateS is the consideration of guaranteed loans an increase in TED spreads will cause the cost of bank borrowing to go up thus, the correct answer is D.Question 035Determine the correct risk definition pairs below:i) The risk of extension is a measure of the difference between the interest income generated by financial institutions and the amount of interest paid to lenders, relative to the amount of their interest-earned assets ii) corresponding financing liabilities refer to matching assets and with the same periodiii) Interest margin risk is a risk associated with debt refinancing. This is the habit faced by countries and companies when their debt is about to mature and needs to be rolled into new debt (i.e. only the third) i and iie only(i and iiE) i and III only(II and III only) II and III)ii and iiiH) any of the above ANSWERThe is considered correct: net interest margin (NIM) is a measure of the difference between interest income from financial institutions and the amount of interest paid to lenders, relative to the amount of their assets acquired interest financing refers to Of assets and liabilities with the same duration AssetOver risk associated with debt refinancing. The risks of extension are usually faced by countries and companies when their debt is about to mature and need to be rolled over to new debtSSo, the correct answer is B.Question 036Assumptions of the Capital Asset Pricing Model (CAPM) will include any of the following: i. No taxes) There are no transaction costsiii) investors have homogeneous expectations regarding expected returns A) ionlyB II onlyC) only 3 D) I and IIEE) i and III only) II and G) only I, ii and iiiH) none of the aboveANSWERAssumptions above of the capital asset pricing model (CAPM) will include: No taxes, no transaction costs, no homogeneous expectations regarding expected returnscan borrow and lend at a free risk rate, the right answer is G Question.037ask you to consider a long hedge fund of US$459 million in a certain set of shares and $258 short in another set of stocks. Assuming the risk-free interest rate is 1.09%, the fund's rights are US$222 and the fund's beta is about 0.59, determine the total leverage and net leverage. A) Total leverage = 3.23 net leverage = 0.91B) Total leverage = 4.25 net leverage = 23C) Total leverage = 2.89 net leverage = 87D) Total leverage = 1.69 net leverage = 25 E) Total leverage = 3.87 net leverage = 68F) Total leverage = 4.59 net leverage = 88g) None of the useless data above, we have the following; 22 = 3.23 Net leverage will be granted: (459 - 258) / 222 = 0.91Thus, the correct answer is A.Question 038Determine which of the following is / is most likely correct: 1) Gamma measures the rate at which delta changes when the underlying stock moves 1ii$) Gamma is the lowest for the short term, in money optionsiii) gamma can only positiveA) i onlyB II only C) iii only d) i and ii onlyE) i and iii onlyF) ii and iii only ii and iiih only ii and iiiH) no one from the aboveANSWER is considered to be correct :Gamma measure delta rate changes when the underlying stock moves $1 gma is the highest in the short term, in - money optionsThma can be positive or negativeThus, the correct answer is A.Question 039Ask your knowledge of construction techniques in risk management. Determining which of the following is/is probably correct: i) squared programming will explicitly consider only two elements: Alpha and Costsii transactions) the advantage of quadratic programming is that it can include all the limitations and limitations one finds in a linear program. This should be the best of all worldsiii) the disadvantage of square programming is that it requires Many of the more inputs than other construction techniques portfolio A) i only B) II only third) I and only 2E) I and 3 OnlyF (II) and III only i, ii and iiiH) any of the aboveanswers is considered to be correct: square programming will explicitly consider three elements (3): alpha and risk and transaction costs feature of square programming is that it can include all the limitations and limitations that one finds in a linear program. This should be the best of all the worlds the disadvantage of square programming is that it requires too many inputs than other portfolio construction techniquesThus, and the correct answer is F.Question 040 it is said that the investment manager in a large fund has seen returns coming in less than the standard S&P 500 index just a few times over the past 10 years. What is the best risk measure you can use to determine manager performance? a) Sharpp ratio, SansaC( information ratio), SortinoE ratio, RiskF methodology) and irregular RiskANSWERIN this example, we are mainly trying to determine the performance of the negative side of the fund manager and the Sortino ratio would be the best option because it measures the risk of falling returns. Given the relatively good performance over the years, the use of many other measures would result in unfairly high and pro-director results. Please find out the definitions for these different ratios in your FRM test – they are usually an easy source of points to register in examThus, the correct answer is D.Thank you to pass a few of our FRM sample questions and answers. Make sure you take full advantage by downloading all free downloadable PDF files before exam day!  Use the links below for additional information: our free home page DownloadsAbout FRM TestMuch Love, The QuestionBank Family Family

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