

GARP FRM-Part-1

GARP Financial Risk Manager (FRM) Part 1

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Questions**

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QUESTION: 1

Robert Patterson, an options trader, believes that the return on options trading is higher on Mondays than on other days. In order to test his theory, he formulates a null hypothesis. Which of the following would be an appropriate null hypothesis? Returns on Mondays are:

- Option A : less than returns on other days.
- Option B : not less than returns on other days.
- Option C : not greater than returns on other days.
- Option D : greater than returns on other days.

Correct Answer: C

QUESTION: 2

An analyst is using key rate shifts to model the term structure of interest rates. For key rates the analyst has chosen the 1-year, 7-year, and 20-year yields. The rate changes that will have an effect on a 5-year bond are:

- Option A : 1-year, 7-year, and 20-year.
- Option B : 1-year and 7-year.
- Option C : 1-year.
- Option D : 7-year.

Correct Answer: B

QUESTION: 3

An analyst is currently considering a portfolio consisting of two stocks. The first stock, Remba Co., has an expected return of 12% and a standard deviation of 16%. The second stock, Labs, Inc., has an expected return of 18% and a standard deviation of 25%. The correlation of returns between the two securities is 0.25. If the analyst forms a portfolio with 30% in Remba and 70% in Labs, what is the portfolio's expected return?

- Option A : 21.5%.
- Option B : 15.0%.
- Option C : 16.2%.
- Option D : 17.3%.

Correct Answer: C

QUESTION: 4

The CRO of a bank is evaluating the bank's practices for the management of risk data. The CRO notes that in characterizing various dimensions of the bank's data, the Basel Committee has suggested several principles

to promote strong and effective risk data aggregation capabilities. Which statement correctly describes a recommendation that the bank should follow in accordance with the Basel Committee's principles for effective risk data aggregation and risk reporting?

Option A : The completeness principle recommends that a financial institution capture data on its entire scope of material risk exposures.

Option B : The integrity principle recommends that data aggregation be completely automated without any manual intervention.

Option C : The adaptability principle recommends that a bank frequently update its risk reporting systems to incorporate changes in best practices.

Option D : The governance principle recommends that the risk data be reconciled with management's rough approximations of risk exposure prior to aggregating the data.

Correct Answer: A

QUESTION: 5

Suppose you have a two-security portfolio containing bonds A and B. The book value of bond A is \$20 and the market value is \$35. The book value of bond B is \$40 and the market value is \$50. The duration of bond A is 4.7 and the duration of bond B is 5.9. Which of the following amounts is closest to the duration of the portfolio?

Option A : 5.3.

Option B : 5.6.

Option C : 5.4.

Option D : 5.5.

Correct Answer: C

QUESTION: 6

Immunization is the process of offsetting the effects of interest-rate changes on the value of assets and liabilities. Coverage of liabilities with significant convexity may be more effectively matched with a:

Option A : callable bond portfolio, especially in a declining-rate environment.

Option B : bullet portfolio with little convexity.

Option C : barbell portfolio with positive convexity.

Option D : mortgage portfolio, especially in a highly volatile rate environment.

Correct Answer: C

QUESTION: 7

Using the Black-Scholes model, compute the value of a European call option using the following inputs: Underlying stock price: \$100 Exercise price: \$90 Risk-free interest rate: 5% Volatility: 20% Dividend

yield: 0% Time to expiration: one year The Black-Scholes call option price is closest to:

- Option A : \$15.33.
- Option B : \$13.65.
- Option C : \$16.71.
- Option D : \$17.99.

Correct Answer: C

QUESTION: 8

Regarding the relationship between a firm's risk appetite and its business strategy, which of the following statements is true?

- Option A : Business planning activities that exceed risk appetite should be maintained.
- Option B : Consideration must be given to the downside risks of only risky business strategies.
- Option C : Business strategy planning meetings require input from the risk management team.
- Option D : A firm's risk appetite reflects its ability to minimize risk.

Correct Answer: C

QUESTION: 9

An operational risk manager is presenting to a group of risk analysts about different techniques to model operational risk. An analyst asks the manager about the appropriate use of the power law in estimating operational losses. Which of the following would be a correct statement for the manager to make about the use of the power law?

- Option A : It is suitable for modeling the tail of the operational loss distribution, but not for modeling the body of the distribution.
- Option B : It implies that operational losses tend to follow a normal distribution.
- Option C : It is more effective in modeling some types of operational risk, such as losses from fraud, than others, such as losses from natural disasters.
- Option D : It is generally used to estimate routine operational losses which occur at a relatively high frequency.

Correct Answer: A

QUESTION: 10

Call and put option values are most sensitive to changes in the volatility of the underlying when:

- Option A : calls are deep out-of-the-money and puts are deep in-the-money.
- Option B : both calls and puts are at-the-money.
- Option C : both puts and calls are deep out-of-the-money.

Option D : both calls and puts are deep in-the-money.

Correct Answer: B

QUESTION: 11

A put option on DCY stock matures six months from today and sells for \$0.49. A call option on DCY stock with the same strike price sells for \$4.52. Both the put and the call are European options. DCY stock is priced at \$55 and the risk-free rate of interest is 4 percent. The strike price of the put and call options is closest to:

- Option A : \$53.
- Option B : \$52.
- Option C : \$50.
- Option D : \$51.

Correct Answer: B

QUESTION: 12

A \$2 million balanced portfolio is comprised of 40 percent stocks and 60 percent intermediate bonds. For the next year, the expected return on the stock component is 9 percent and the expected return on the bond component is 6 percent. The standard deviation of the stock component is 18 percent and the standard deviation of the bond component is 8 percent. What is the annual VAR for the portfolio at a 1 percent probability level if the correlation between the stock and the bond component is 0.25?

- Option A : \$149,500.
- Option B : \$303,360.
- Option C : \$152,250.
- Option D : \$126,768.

Correct Answer: B

QUESTION: 13

Regarding the conditions for model selection criteria to demonstrate consistency, which of the following statements is true? I. The most consistent selection criteria with the greatest penalty factor for degrees of freedom is unbiased mean squared error. II. If we consider the fact that the true model may be much more complicated than the models under consideration, then the Akaike information criterion (AIC) measure should be examined.

- Option A : I only.
- Option B : Both I and II.
- Option C : II only.
- Option D : Neither I nor II.

Correct Answer: C

QUESTION: 14

A risk analyst at an asset management company is assessing the past performance of an internally managed equity fund. The analyst obtains the following information on the market and the fund over the last year: • Treynor performance index for the fund: 8.00% • Return of the market portfolio: 5.60% • Beta of the fund: 0.65 • Risk-free rate of interest: 1.75% Based on the information above, what is the Jensen's alpha for the equity fund over the same period?

- Option A : 2.70%
- Option B : 4.15%
- Option C : 2.40%
- Option D : 3.69%

Correct Answer: A

QUESTION: 15

Portfolio A has total assets of \$14 million and an expected return of 12.50 percent. Historical VAR of the portfolio at 5 percent probability level is \$2,400,000. What is the portfolio's standard deviation?

- Option A : 14.65%.
- Option B : 15.75%.
- Option C : 12.50%.
- Option D : 17.97%.

Correct Answer: D

QUESTION: 16

Given the spot rates for the 6-month and 1-year maturing bond, the 6-month forward rate 6 months from now is closest to:

- Option A : 7.28%.
- Option B : 6.54%.
- Option C : 5.86%.
- Option D : 6.04%.

Correct Answer: B

QUESTION: 17

An analyst applying a reinforcement learning model has assigned a probability to exploitation of 65%. As she completes more trials, she can reasonably expect that the probability will increase above:

- Option A : 65% for exploitation.
- Option B : 50% for exploitation
- Option C : 50% for exploration.
- Option D : 35% for exploration.

Correct Answer: A

QUESTION: 18

A risk analyst at a growing bank is concerned about a loan exposure to a large manufacturing company which is losing significant market share in its industry. The analyst considers the use of different credit risk transfer mechanisms, including CDS, to manage this exposure. Which of the following statements correctly describes an appropriate benefit of using CDS in this situation?

- Option A : CDS provide an agreement to periodically revalue the loan and transfer any net value change.
- Option B : CDS allow the bank to offset its exposure to the company with loan exposures to other manufacturing companies.
- Option C : CDS quantify the manufacturing company's default risk and allow the bank to monitor changes in this risk on a real-time basis.
- Option D : CDS require the manufacturing company to pay back the loan in full at an earlier point in time.

Correct Answer: C

QUESTION: 19

A Swiss chemical company is considering issuing bonds to finance its planned expansion. A risk analyst involved in the capital raising program at the company is studying the external agency rating process to gain a better understanding of the implications of agency ratings for the firm's financing plans. Which of the following statements is correct?

- Option A : Rating agencies produce point-in-time ratings, as these are designed to provide the best current estimate of future default probabilities.
- Option B : Rating agencies provide outlooks to indicate the potential for a change in rating in the short-term, and use watchlists to indicate medium-term changes.
- Option C : Empirically, changes in bond and stock prices tend to be greater in cases of ratings downgrades than ratings upgrades.
- Option D : Agency ratings tend to produce identical default rates for companies in the same industry but located in different countries.

Correct Answer: C

QUESTION: 20

All of the following are reasons that Nick Leeson engaged in aggressive speculative trading in the Barings Bank collapse except:

- Option A : Barings' lack of risk management oversight.
- Option B : Barings' risk management models were awed.
- Option C : he was attempting to recover previous trading losses.
- Option D : his authority over settlement operations allowed him to hide trading losses.

Correct Answer: B

QUESTION: 21

The investment banking division of a large German bank recently engaged a new client whose business is in direct competition with an existing client of the commercial banking division of the bank. A manager in the commercial banking division is concerned about conflicts of interest that may arise from providing both clients with a high level of customer service. What is of greatest concern to the manager regarding this situation?

- Option A : The investment banking division pressuring commercial bankers to confirm material nonpublic information
- Option B : The investment banking division pressuring commercial bankers to open a banking relationship with the new client
- Option C : The investment banking division pressuring the banks brokers to buy certain securities for clients
- Option D : The investment banking division pressuring researchers to generate buy recommendations for the new client

Correct Answer: A

QUESTION: 22

A risk manager at an investment bank is examining the forward and futures contracts the bank's clients use as hedging instruments. The manager compares the way the two types of contracts are priced, how profits and losses are calculated, and how decisions to offset or deliver against the contracts are made. Which of the following statements is correct?

- Option A : When the price of an asset is positively correlated with interest rates, the forward contract will typically have a higher price than the futures contract.
- Option B : The daily profit and loss on forward and futures contracts differ, since futures contracts realize profits and losses each day while forward contracts realize them at maturity.
- Option C : Prices on similar forward and futures contracts will be the same due to the no-arbitrage relationship between forwards and futures.
- Option D : If interest rates are higher than the income generated by a financial asset, delivery of the asset against the futures contract will take place on the latest date possible.

Correct Answer: B

QUESTION: 23

Which of the following liquidity definitions is most likely associated with funding liquidity?

- Option A : The length of time it will take an asset to regain its price after the price has fallen temporarily.
- Option B : The loss that would be sustained by a trader who sells an asset and then immediately buys it back.
- Option C : The number of units of an asset a trader can buy or sell at the current market quote (bid and ask prices).
- Option D : The risk that investors may not be able to roll over short-term debt to finance the purchase of an asset.

Correct Answer: D

QUESTION: 24

At-the-point approaches tend to be:

- Option A : neither counter- nor procyclical because they rarely change.
- Option B : procyclical.
- Option C : countercyclical.
- Option D : neither counter- nor procyclical because they change randomly.

Correct Answer: B

QUESTION: 25

A senior analyst at a financial institution is giving a presentation to a group of junior analysts on the features of the power law and its uses. The senior analyst notes that the power law is particularly important in understanding the tails of distributions. Which of the following is correct regarding the power law?

- Option A : The power law specifies the probability of observing a value greater than a given value.
- Option B : Power law tails are only observed in normal distributions.
- Option C : The power law models the slow decline in the probability of observing large values in thin-tailed distributions.
- Option D : Power law tails are not present in the Student's t distribution.

Correct Answer: A

QUESTION: 26

In the context of stress testing principles for banks, which of the following statements is correct regarding wrong-way risk? Wrong-way risk emerges when: there are changes in basis between the opening and closing of a futures

Option A : market conditions.

Option B : a company purchases an option on its own stock. the probability of default of counterparties increases as a result of general

Option C : a decline in an asset value may dry up its liquidity.

Option D : position.

Correct Answer: A

QUESTION: 27

An analyst is estimating whether a fund's excess return for a quarter is related to interest rates and last quarter's excess return. The regression equation is found to have unconditional heteroskedasticity and serial correlation. Which of the following is most accurate? Parameter estimates will be:

Option A : accurate and statistical inference about the parameters will be valid.

Option B : inaccurate but statistical inference about the parameters will be valid.

Option C : inaccurate and statistical inference about the parameters will not be valid.

Option D : accurate but statistical inference about the parameters will not be valid.

Correct Answer: C

QUESTION: 28

The board of directors of a growing asset management company is conducting a review of the firm's approach to risk management. The board concludes that the firm should establish an ERM framework. Which of the following represents a key benefit that the firm will likely attain after establishing an ERM framework?

Option A : Allowing the company to determine and make use of a higher risk appetite

Option B : Finding the optimal reporting methodology for each risk function

Option C : Taking advantage of the new opportunities that create value on a standalone basis

Option D : Improving the top-down communication and coordination in the company

Correct Answer: D

QUESTION: 29

A market risk analyst at a regional bank is calculating the annual VaR of portfolio of investment securities. The portfolio has a current market value of USD 3,700,000 with a daily variance of 0.0004. Assuming there are 250 trading days in a year and the daily portfolio returns are independent and follow the same normal

distribution with a mean of zero, what is the estimate of the 1-year VaR at the 95% confidence level?

- Option A : USD 1,924,720
- Option B : USD 2,721,519
- Option C : USD 38,494
- Option D : USD 121,730

Correct Answer: A

QUESTION: 30

Bonds rated B have a 25% chance of default in five years. Bonds rated CCC have a 40% chance of default in five years. A portfolio consists of 30% B and 70% CCC-rated bonds. If a randomly selected bond defaults in a five-year period, what is the probability that it was a Brated bond?

- Option A : 0.250.
- Option B : 0.429.
- Option C : 0.625.
- Option D : 0.211.

Correct Answer: D

QUESTION: 31

A risk manager at a bank is explaining foreign exchange rate parity concepts to a group of newly hired analysts. The manager describes the assumptions, formulas, and implications of the covered interest rate parity and uncovered interest rate parity theorems. Which of the following statements is correct regarding these theorems?

- Option A : Covered interest rate parity holds, among other reasons, because the amount of currency that will be obtained from investing in either the domestic or the foreign currency is certain.
- Option B : Forward rates are found using the covered interest rate parity theorem by multiplying the spot rate by the ratio of 1 plus the risk-free interest rate in the base currency to 1 plus the risk-free interest rate in the quote currency raised to the time to maturity.
- Option C : Forward points, when expressed as a percentage of the spot rate, can be used to determine the interest rate and inflation differential in uncovered interest rate parity.
- Option D : Uncovered interest rate parity is a no-arbitrage theorem that incorporates each country's inflation rate into the covered interest rate parity formula to predict future exchange rates.

Correct Answer: A

QUESTION: 32

A trader on the interest rate desk of a large bank entered into a customized 2-year interest rate swap contract on July 31, 2020, on a notional amount of USD 7.5 million. According to the terms of the swap, the

bank received an annual fixed rate of 2.3% and paid an annual rate of SOFR as of the first day of the month of payment plus 1.95%. Payments were made every 6 months. The table below displays the relevant SOFR rates over the 2-year period: Date AND 6-month SOFR
1-Jul-20: 0.11%
1-Jan-21: 0.10%
1-Jul-21: 0.05%
1-Jan-22: 0.05%
1-Jul-22: 1.52%
Assuming no default, which of the following was the best estimate to the net amount that the bank paid or received on July 31, 2022?

- Option A : Paid USD 87,750
- Option B : Received USD 9,000
- Option C : Paid USD 43,875
- Option D : Received USD 29,250

Correct Answer: C

QUESTION: 33

As a fund manager, Bryan Cole, CFA, is responsible for assessing the risk and return parameters of the portfolios he oversees. Cole is currently considering a portfolio consisting of only two stocks. The first stock, Remba Co., has an expected return of 12 percent and a standard deviation of 16 percent. The second stock, Labs, Inc., has an expected return of 18 percent and a standard deviation of 25 percent. The correlation of returns between the two securities is 0.25. Cole has the option of including a third stock in the portfolio. The third stock, Wimset, Inc., has an expected return of 8% and a standard deviation of 10 percent. If Cole constructed an equally weighted portfolio consisting of all three stocks, the portfolio's expected return would be closest to:

- Option A : 17.1%.
- Option B : 15.9%.
- Option C : 12.7%.
- Option D : 13.9%.

Correct Answer: C

QUESTION: 34

The predictions that are generated from an underfitted model will likely have:

- Option A : high bias and low variance.
- Option B : high bias and high variance.
- Option C : low bias and low variance.
- Option D : low bias and high variance.

Correct Answer: A

QUESTION: 35

Suppose that the single-monthly mortality rate (SMM) is equal to 0.004. The mortgage balance for a certain

month is \$100 million, and the scheduled principal payment for the same month is \$2.5 million. What is the assumed prepayment amount for this month?

- Option A : \$460,000.
- Option B : \$960,000.
- Option C : \$890,000.
- Option D : \$390,000.

Correct Answer: D

QUESTION: 36

A fund holds \$10 million nominal of the XYZ 5.5% 30-year bond. It enters into a one month dollar roll with arepo dealer bank in which it sells the security at a price of 100-08 and buys it back at a forward price of par. Assuming that the security experiences a 2% paydown (scheduled principal plus prepayments) during the term of the trade, estimate the value of the drop.

- Option A : \$25,000
- Option B : \$225,000
- Option C : \$200,000
- Option D : \$800,000

Correct Answer: B

QUESTION: 37

An analyst is regressing fund returns against the return on the Wilshire 5000 to determine whether beta is equal to 1.0. The analyst is trying to determine whether the number of observations should be increased. Which of the following is a reason why the test will have higher power if the number of observations is increased? The:

- Option A : standard error of the regression will be lower.
- Option B : constant of the regression will be closer to zero.
- Option C : estimate of beta will be farther away from 1.0.
- Option D : mean squared error of the regression will be lower.

Correct Answer: A

QUESTION: 38

Regarding a xed-rate, level payment, and fully amortized mortgage loan, which of the following statements is false?

- Option A : Each payment consists of an interest component and a principal component.
- Option B : Payments are equal over the life of the loan.

Option C : Principal repayment falls as interest payments rise over the life of the loan.
Option D : Interest payments fall as principal payments rise over the life of the loan.

Correct Answer: C

QUESTION: 39

As a research analyst, you're analyzing the probability that the prices of dollar will go below 72 after the upcoming budget. Suppose that the prices of dollar are uniformly distributed with a floor at Rs. 70 and a ceiling at Rs. 75 imposed by the government, then what is the probability that the prices of gold will be set below 72?

- Option A : 0.625
- Option B : 0.425
- Option C : 0.4
- Option D : 0.815

Correct Answer: C

QUESTION: 40

Jayce Arnold, a CFA candidate, is studying how the market yield environment affects bond prices. She considers a \$1,000 face value, option-free bond issued at par. Which of the following statements about the bond's dollar price behavior is most likely accurate when yields rise and fall by 200 basis points, respectively? Price will:

- Option A : increase by \$124, price will decrease by \$149.
- Option B : increase by \$149, price will decrease by \$124.
- Option C : decrease by \$124, price will increase by \$149.
- Option D : decrease by \$149, price will increase by \$124.

Correct Answer: C

QUESTION: 41

Suppose a bond with a par value of 1000 has coupon payments of 10% per annum and a yield to maturity of 5%. If the bond has 4 years to maturity, what is the price of the bond?

- Option A : 904.97
- Option B : 841.51
- Option C : 3628.22
- Option D : 1177.3

Correct Answer: D

QUESTION: 42

One of the basic requirements of a risk control process that a risk and control selfassessment program (RCSA) fails in is the:

- Option A : expert opinion of managers.
- Option B : ongoing assessment of the effectiveness of risk management activities.
- Option C : independent verification of risk identification and measurement.
- Option D : identification of expected losses.

Correct Answer: C

QUESTION: 43

Sue Johnson, FRM, has an elderly client with a very large asset base. The client intends to start divesting her fortune to various charities. Johnson is on the Board of a local charitable foundation. Johnson must appropriately:

- Option A : should solicit the client herself, along with other Board members, to obtain a larger contribution.
- Option B : can discuss her client's situation with the charitable foundation as long as she informs other local charities of her client's intentions.
- Option C : must not discuss anything regarding her client and her client's intentions with the charitable foundation without permission.
- Option D : can make this known to the charitable foundation so that they can solicit the client, since it is the client's wish to divest assets to charities in the future.

Correct Answer: C

QUESTION: 44

Which of the following statements is true regarding the mixture of distributions for risk modeling?
I. Distributions should never be combined.
II. It may be helpful to create a new distribution if the underlying data you are working with does not currently fit a pre-determined distribution.

- Option A : Both I and II.
- Option B : I only.
- Option C : II only.
- Option D : Neither I nor II.

Correct Answer: C

QUESTION: 45

Which of the following is not a reason to accumulate loss data?

- Option A : Past losses are almost always repeated in the future.
- Option B : It focuses management attention on the magnitude and effect of risk.
- Option C : It provides data necessary for empirical analysis.
- Option D : It contributes to the understanding of future expected losses.

Correct Answer: A

QUESTION: 46

A newly hired quantitative analyst at a financial institution has been asked by a portfolio manager to calculate the VaR of a portfolio for 10-, 15-, 20-, and 25-day periods. The portfolio manager notices something wrong with the analyst's calculations. Assuming the annualized volatilities of daily returns for the four periods are equal, and that the daily returns are independently and identically normally distributed with a mean of zero, which of the following VaR estimates for this portfolio is inconsistent with the others?

- Option A : VaR(20-day) = USD 671 million
- Option B : VaR(15-day) = USD 503 million
- Option C : VaR(25-day) = USD 750 million
- Option D : VaR(10-day) = USD 474 million

Correct Answer: B

QUESTION: 47

A risk manager at Firm SPC is testing a portfolio for heteroskedasticity using the White test. The portfolio is modeled as follows: $Y_i = \alpha + \beta X_{1i} + \epsilon_i$ The residuals are computed as follows: $\hat{\epsilon}_i = Y_i - \hat{\alpha} - \hat{\beta} X_{1i}$ Which of the following correctly depicts the second step in the White test for the portfolio?

- Option A : $\hat{\epsilon}_i^2 = \gamma_0 + \gamma_1 X_{1i} + \eta_i$
- Option B : $\hat{\epsilon}_i^2 = \gamma_0 + \gamma_1 X_{1i}^2 + \eta_i$
- Option C : $\hat{\epsilon}_i^2 = \gamma_1 X_{1i} + \gamma_2 X_{1i}^2 + \eta_i$
- Option D : $\hat{\epsilon}_i^2 = \gamma_0 + \gamma_1 X_{1i} + \gamma_2 X_{1i}^2 + \eta_i$

Correct Answer: D

QUESTION: 48

Which of the following statements regarding securitization is least accurate?

- Option A : Securitization enabled the originate-to-distribute banking model.
- Option B : Securitization enables an originating institution to transfer the default risk of the underlying pool of assets.
- Option C : Securitization may allow institutional investors to indirectly hold assets that they are prevented from holding directly.
- Option D : Securitization gives originating banks greater incentive to approve and monitor loans carefully.

Correct Answer: D

QUESTION: 49

A risk analyst uses the bootstrap method to assess the market risk of a global equity portfolio that experienced significant volatility in the recent past. The analyst applies independent and identically distributed (IID) bootstrapping to the extracted standardized residuals of the fitted model, and these bootstrapped standardized residuals are then used to generate time paths of future asset returns. In the final step, the simulated data is used to estimate the VaR of the global equity portfolio over a 1-month horizon. Which of the following will the analyst find to be correct when applying the IID bootstrap method?

- Option A : The VaR estimates will be reliable because the IID bootstrap fully captures interdependencies in the observed asset return data.
- Option B : The VaR estimates will be reliable because they are based on random values generated from an assumed distribution that is not affected by external events or time.
- Option C : The VaR estimates will not be reliable because they are derived from the most current observations of the period that is characterized by higher volatility.
- Option D : The VaR estimates will not be reliable because the IID bootstrap allows the possibility of future losses that are larger than those that have been realized in the past.

Correct Answer: C

QUESTION: 50

An analyst is choosing between two machine learning models. Which of the following datasets will the analyst most likely use to make the determination of which model to select?

- Option A : Validation set.
- Option B : Training set.
- Option C : Test set.
- Option D : Variance set.

Correct Answer: A

QUESTION: 51

It is April 15, and a trader is entered into a short position in two soybean meal futures contracts. The contracts expire on August 15, and call for the delivery of 100 tons of soybean meal each. Further, because this is a futures position, it requires the posting of a \$3,000 initial margin and a \$1,500 maintenance margin per contract. For simplicity, however, assume that the account is marked to market on a monthly basis. Assume the following represent the contract delivery prices (in dollars per ton) that prevail on each settlement date: April 15 (initiation) 173.00 May 15 179.75 June 15 189.00 July 15 182.50 August 15 (delivery) 174.25 What is the equity value of the margin account on the May 15 settlement date, including any additional equity that is required to meet a margin call?

- Option A : \$7,350.
- Option B : \$4,650.
- Option C : \$2,300.
- Option D : \$1,350.

Correct Answer: B

QUESTION: 52

A risk manager at a bank is measuring the sensitivity of a bond portfolio to non-parallel shifts in spot rates. The portfolio currently holds a 4-year zero coupon bond and a 7-year zero coupon bond with the following sensitivities to these respective spot rates: Spot rate AND Change in portfolio value for 1-bp increase in spot rate (AUD) 4-year -189.277 7-year -302.45 To model the non-parallel movement of the spot rate curve, the manager treats the 2-year, 5-year, and 10-year spot rates as key rates. Given this information, what is the portfolio's key rate 01 (KR01) for a 1-bp increase in the 5-year rate?

- Option A : AUD 184.06
- Option B : AUD 226.99
- Option C : AUD 307.66
- Option D : AUD 491.72

Correct Answer: C

QUESTION: 53

A bank has entered into a 3 x 6 forward rate agreement to receive a fixed rate of 3.35 percent on \$12 million in six months. If the applicable rate in three months is 3.62 percent, the cash flow associated with this forward rate agreement for the bank would be closest to:

- Option A : \$16,200.
- Option B : -\$32,400.
- Option C : -\$8,100.
- Option D : \$32,400.

Correct Answer: C

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