

GARP FRR_Series

Financial Risk and Regulation (FRR)® Series

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Questions**

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Question: 1

Financial regulation primarily exists to:

- A. Eliminate all financial risk
- B. Correct market failures
- C. Increase bank profitability
- D. Guarantee investor returns

Answer: B

Explanation:

Regulation addresses market failures such as information asymmetry, moral hazard, and systemic risk to ensure financial stability.

Question: 2

Systemic risk refers to:

- A. Risk of a single firm defaulting
- B. Risk eliminated through diversification
- C. Risk of collapse of the entire financial system
- D. Operational risk only

Answer: C

Explanation:

Systemic risk arises when the failure of one institution threatens the stability of the entire financial system.

Question: 3

Moral hazard occurs when:

- A. Borrowers lack information
- B. Institutions take excessive risk due to protection
- C. Markets are perfectly competitive
- D. Regulation is absent

Answer: B

Explanation:

Moral hazard results when entities take greater risks because losses are partially borne by others.

Question: 4

Information asymmetry exists when:

- A. All market participants have equal information
- B. Regulators have superior data
- C. One party has more information than another

D. Markets are inefficient

Answer: C

Explanation:

Information asymmetry occurs when one party in a transaction has better information than the other.

Question: 5

The primary goal of macroprudential regulation is to:

- A. Protect individual banks
- B. Stabilize the entire financial system
- C. Improve profitability
- D. Reduce competition

Answer: B

Explanation:

Macroprudential regulation focuses on system-wide stability rather than individual institutions.

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