RISK MANAGEMENT [6352-02]

EXAM, Dec 15, 2011 Student's name ....No …………………

1) VaR is a probablility-based measure of _______ .
   a) loss potential
   b) profit potential
   c) realized loss
   d) realized profit
2) The variance-covariance method for estimating VaR assumes that portfolio returns
   a) are not correlated.
   b) are normally distributed.
   c) can be diversified.
   d) are calculated as excess returns.
3) To convert VaR from a one day holding period to a thirty day holding period the VaR number is generally multiplied by:
   a) 1,65
   b) 5,477
   c) 3,16
   d) 30
4) Spot rate z_3 = 4 per cent. Spot rate z_2 = 6 per cent. The forward rate for a capital market instrument $_3f_2$ is:
   a) 0,11%
   b) 2,21%
   c) 4,00%.
   d) 6,00%.
5) What is the price impact of a 200 basis points increase in yield on a bond with a modified duration 5 and convexity of 40 ?
   a) +0,46%.
   b) -0,46%.
   c) + 9,2%.
   d) - 9,2%.
6) A bank has 1000 PLN in assets with duration of 1,2. Duration of all liabilities and equity is 0,2. What is the impact on equity value if all interest rates fall 100 basis points ?
   a) + 10 PLN.
   b) - 10 PLN.
   c) + 20 PLN.
   d) - 20 PLN.
7) A bond price has increased from 1000 to 1005 as interest rate dropped by 10 basis points. Duration is approximately equal to:
   a) 5.
   b) –5.
   c) 10.
   d) –10.
8) When interest rate is 5 per cent simple duration of a console bond is equal to ____.
   a) one month
   b) one year
   c) 21 years
   d) infinity.
9) The duration of a floating rate instrument is usually equal to
   a) 10 days
   b) the present value from the time of purchase
   c) maturity
   d) time to call
   e) time to repricing.
10) The ___________ model is used to analyze the impact of interest rate changes on profits.
   a) duration
   b) duration + convexity
   c) maturity
   d) repricing

11) The international Fisher relation claims that _____ across the world.
   a) exchange rates are determined by investors' expectations
   b) exchange rates are determined by central banks
   c) real interest rates are equal
   d) real interest rates are not equal
12) The protective put with foreign assets is constructed by
   a) purchasing foreign exchange call options.
   b) selling foreign exchange call options.
   c) purchasing foreign exchange put options.
   d) selling foreign exchange put options.
13) The minimum variance currency exposure for a short position is achieved, when the hedge ratio (h) is
   a) -1.
   b) -0.5.
   c) 0.
   d) 1.
14) Market value of assets is 1000, long term debt is 200, equity is 400, volatility of ROA is 10%. Distance to default is equal to:
   a) 5.
   b) 8.
   c) 10.
   d) 12.
15) The discriminant model estimates
   a) probability of default.
   b) probability of repayment.
   c) default risk based on financial ratios.
   d) economic loss.
16) A wider credit spread is accompanied by lower:
   a) credit rating.
   b) credit risk.
   c) default probability.
   d) credit provision.
17) The stock of a company with leverage can be viewed as a ____ option on the assets.
   a) long call
   b) short call
   c) long put
   d) short put
18) Which of the following sentences is NOT true ?
   a) Probability of default (PD) is a substitute for credit spread.
   b) Probability of default is the same as recovery rate.
   c) The lower is the credit rating, the higher is the probability of default.
   d) The higher is the credit rating, the lower is the credit spread.
19) Probabilities of default _____ during recession and ______ during expansion.
   a) increase, decrease
   b) decrease, increase
   c) are relatively stable in time.
   d) do not depend on macroeconomic situation.
20) A migration matrix is the heart of the _______ system.
   a) CreditRisk+
   b) KMV
   c) CreditMetrics
   d) RiskMetrics