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अन्तर्राष्ट्रीय संबंधों पर तनाव शैथिल्य के प्रभाव की विवेचना कीजिए।

प्र018. भारत–पाकिस्तान संबंधों से जुड़े मुख्य मुद्दों का परीक्षण कीजिए। 05

अथवा

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निःशस्त्रीकरण का अर्थ स्पष्ट कीजिए। निःशस्त्रीकरण के प्रमुख प्रकार कौन–कौन से है ?

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अथवा

भारत के संविधान की प्रमुख विशेषताओं की विवेचना कीजिए।

प्र021. सार्क के गठन और उद्देश्यों पर प्रकाश डालिए। इसकी आंशिक सफलता का क्या कारण है ? 06

अथवा

अन्तर्राष्ट्रीय मुद्रा कोष की स्थापना के क्या उद्देश्य है ? इसके मुख्य कार्यों की

EDITOR'S NOTE

ROHIT MANGLIK
CEO , EduGorilla

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Kausani is the birthplace of Sumitranandan Pant, India's poet laureate. Its natural surroundings inspired many of his poems. Its tea gardens mingle with dense pine forests and fruit orchards. The area is also host to many fairs and religious ceremonies. If Uttarakhand is the abode of gods, Kausani is God's own backyard. There is no traffic, no one is in a hurry. If serenity could be put on a canvas, the picture would resemble Kausani.

On the basis of your reading of the above passage, answer the following questions :

(a) Where is Kausani situated ? 1

(b) What is the most striking aspect of Kausani ? 1

(c) Which is the most famous peak on view from Kausani ? 1

(d) How did Kausani influence Sumitranandan Pant ? 1

(e) When does the view of peaks become so memorable ? 1

(f) How can we say that Gandhiji was greatly charmed by the natural beauty of Kausani ? 1

(g) What makes Kausani a calm and quiet place ? 1

(h) Why is Kausani's guest house of the tea estate known as 'Anashakti Ashram'? 1

2. Read the passage given below : 12

1. I rested for a moment at the door of Anand Bhawan, on Market Road, where coffee-drinkers and tiffin-eaters sat still at their tables, uttering low moans on seeing me. I wanted to assure them, "Don't

SECTION A

1. How do hens care for their young ones?

2. Give any one example of chemical changes in the environment.

3. Name the living organisms that live in root nodules of legumes.

4. What are non-renewable resources?

5. How does regular bathing of the body control the spread of diseases?

6. Which deficiency disease will one get due to lack of iodine in the diet?

7. In the space below, draw a compound trifoliate leaf.

8. How can we control ticks in cattle?

9. What is the gestation period of a sow?

10. How can we get back the sugar which is already dissolved in water?

(B) I sit inside, doors open to the veranda
writing long letters
in which I scarcely mention the departure
of the forest from the house.

(a) 'I' in the above lines is __________ .

(i) the poet

(ii) a young man

(iii) a young woman

(iv) a boy

(b) He is sitting at a place where he could see __________ .

(i) the trees

(ii) the veranda

(iii) the inside of the room

(iv) all of the above

(c) The trees are moving __________ .

(i) inside

(ii) outside

(iii) nowhere

(iv) upward

(C) Did you finish your homework, Amanda ?
Did you tidy your room, Amanda ?
I thought I told you to clean your shoes,
Amanda !

(a) The person addressed in the first line is __________ .

(i) a young woman

(ii) a school going girl

(iii) the mother

(iv) the father

Which of the following observations would the risk manager most likely view as a potential problem with the quotation data? 28. A portfolio manager bought 800 call options on a non-dividend-paying stock, with a strike price of USD 80, for USD 4 each. A 53. These Practice Exams are based on a sample of questions from prior FRM Exams and are suggestive of the questions that will be in the 2018 FRM Exam. The continuously compounded risk-free rate is 5% per year. Suppose the S&P 500 Index has an expected annual return of 7.2% and volatility of 8.2%. CAPM = capital asset pricing model 8. 2 2018 FRM Part I Practice Exam – Statistical Reference Table .... A risk manager has estimated a regression of a firm's monthly portfolio returns against the returns of three US domestic equity indexes: the Russell 1000 Index, the Russell 2000 Index, and the Russell 3000 Index. 1.9% 5.7% 10.8% 32.5% 14.8% 19.0% 22.1% 24.6% The board of directors of a growing insurance company has recommended the firm establish an enterprise risk management (ERM) framework. Management failed to investigate high levels of reported profits even though they were associated with a low-risk trading strategy. From the following model selection criteria, which has the largest penalty for the number of parameters estimated? However, the questions selected for inclusion in the Practice Exams were chosen to be broadly reflective of the material assigned for 2018 as well as to represent the style of question that the FRM Committee considers appropriate based on assigned material. You will not be allowed into the exam room with a personal calculator other than the following: Texas Instruments BA II Plus (including the BA II Plus Professional), Hewlett Packard 12C (including the HP 12C Platinum and the Anniversary Edition), Hewlett Packard 10B II, Hewlett Packard 10B II+ and Hewlett Packard 20B. Points are awarded for correct answers. D 17. In the GARCH(1,1) model, the weights estimated for observations decrease exponentially as the observations become older. USD 98.20 USD 102.4 USD 108.5 USD 110.2 Call option expiring in 5 days with strike price of USD 30 Call option expiring in 5 days with strike price of USD 60 Call option expiring in 30 days with strike price of USD 60 Put option expiring in 30 days with strike price of USD 30 An investment advisor is advising a wealthy client of the company. C 11. The CFO thinks that selling an option is better than taking a forward position because if the EUR goes up, XYZ can take delivery of the USD at 1.19, which is better than the outright forward rate of 1.17. C 45. Given that the correlation between the portfolio and the S&P 500 Index futures is 0.89 and the volatilities of the equity fund and the futures are 0.51 and 0.48 per year, respectively, what position should the manager take to achieve the objective? Assuming the correlation between the fund's returns and that of the index is 1, what is the expected return of the fund using the CAPM? C 36. Which of the following statements describes one of the requirements for a time series to be covariance stationary? What is the information ratio for each fund, and what conclusion can be drawn? Asset A Asset B Asset C Asset D A homeowner has a 30-year, 5% fixed-rate mortgage with a current balance of USD 250,000. 9. USD 1.63 USD 2.40 USD 3.63 USD 4.62 Which of the following statements regarding the trustee named in a corporate bond indenture is correct? 79. Strategy A. D 49. 3.50% 4.50% 5.52% 6.02% © 2018 Global Association of Risk Professionals. D 12. Simulate the test environment as closely as possible. Allow a broker to delay execution of the order to get a better price. Assuming there are 250 trading days in a year and that the portfolio returns follow a normal distribution, the estimate of the annual VaR at the 95% confidence level is closest to which of the following? For a complete list of current topics, core readings, and key learning objectives, candidates should refer to the 2018 FRM Exam Study Guide and 2018 FRM Learning Objectives. By choosing the key rates for the US Treasury as 2-, 5-, 10-, and 30-year par yields, a 15-year on-the-run US Treasury bond has no exposure to the 30-year key rate shift. Using the same model, the portfolio manager estimates that the value of the portfolio would increase to USD 127.70 million if all interest rates fell by 20 bps and would decrease to USD 122.20 million if all interest rates rose by 20 bps. 1 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam Introduction The FRM Exam is a practice-oriented examination. An analyst has been asked to check for arbitrage opportunities in the Treasury bond market by comparing the cash flows of selected bonds with the cash flows of combinations of other bonds. The high correlations between each pair of index returns indicate that multicollinearity exists between the variables in this regression. Plan a date and time to take the practice exam. Assuming no arbitrage opportunity exists, what single factor acting alone would be a realistic explanation for this price difference? USD 1.95 D. For an increase of GBP 1,000 in income, expected annual savings will increase by GBP 240. IR for Fund I = 0.248, IR for Fund II = 0.224; Fund I performed better as it has a higher IR. Which of the following statements is correct? The actual FRM Exam Part I and FRM Exam Part II are 4 hours each. LTCM had no active risk reporting. 3. CCP = central counterparty or central clearing counterparty 12. 7 2018 FRM Part I Practice Exam – Answer Key .... Y bond X bond Z bond Either the Z bond or the Y bond © 2018 Global Association of Risk Professionals. MBS = mortgage-backed-security(securities) 13. The risk-free rate is 3% per year, and the daily volatility of the index is 2.05%. The manager should prefer the zero-coupon bond if the expected average interest rate over the next 2 years is less than 6%. It can be optimal to exercise an American call option on a non-dividend-paying stock early. • Minimize possible distractions from other people, cell phones, televisions, etc.; put away any study material before beginning the practice exam. 38. Unfortunately, there are no futures that are based on this asset. The advisor is considering bonds issued by Company X, Company Y, and Company Z, and wants to choose a bond that satisfies the client's rating requirement, but also has the highest yield to maturity. Shared use is strictly prohibited. After some research, Pear identifies futures contracts on other commodities whose prices are closely correlated to plastic prices. 31 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 77. Bull spread Maximum Profit USD 8 Unlimited USD 8 USD 8 Maximum Loss USD 2 USD 2 Unlimited © 2018 Global Association of Risk Professionals. C 8. 41 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 3. 10. 36 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 94. -55,698 -54,814 -5.5698 -5.4814 A fixed-income portfolio manager currently holds a bullet 7-year US Treasury position with USD 60 million face value. Assuming no default risk, tax implications, or liquidity constraints, which of the following statements is correct? 35. The analyst collects the information about the portfolio and the benchmark index, shown below: What is the Sharpe ratio for this portfolio? • Use the practice exam Answers and Explanations to better understand the correct and incorrect answers and to identify topics that require additional review. D 67. It is always optimal to exercise an American call option on a non-dividend-paying stock before the expiration date. C 91. • Take the practice exam in a quiet place. A portfolio of investment securities for a regional bank has a current market value equal to USD 7,444,000 with a daily variance of 0.0002. 66. USD 4.62 A. 39 2018 FRM Part I Practice Exam – Answers & Explanations .... 6 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 86. Loss severity and loss frequency tend to be modeled with lognormal distributions. D 41. 65. Bull spread D. An analyst is examining the exchange rate between the US dollar and the euro and is given the following information regarding the USD/EUR exchange rate and the respective risk-free interest rates: • • • Current USD/EUR exchange rate: 1.18 Current USD-denominated 1-year risk-free interest rate: 2.5% per year Current EUR-denominated 1-year risk-free interest rate: 1.5% per year According to the interest rate parity theorem, what is the 1-year forward EUR/USD exchange rate? 71. B 88. C 96. T is the time to maturity of the option, and t is the time to the next dividend distribution. The no-arbitrage price of the option is closest to: USD 1. The trustee is paid by the debt issuer, not by bond holders or their representatives. What is the name of this strategy, and what is the maximum profit and loss the investor could incur at expiration? The company is better off whichever way the EUR rate goes. Which of the following is an assumption of the CAPM: A. Both bond prices will move up by roughly the same amount. 83. A variance estimate from the GARCH(1,1) model is always between the prior day's estimated variance and the prior day's squared return. What return of Stock A can be expected for next year according to this forecast? 22 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 50. 19. Assuming all these bonds have the same annualized probability of default and that the defaults are independent, the number of defaults in this portfolio over the next year follows which type of distribution? Execute at the best available price once a trade occurs at the specified or better price. C 28. 49. ERM = enterprise risk management 15. Minimize the square of the sum of differences between the actual and estimated stock returns. A 57. Which statement correctly describes a recommendation that a bank should follow in accordance with the given principles? Futures on Commodity B with 6 months to expiration D. 0.92 0.95 1.13 1.23 In October 1994, General Electric sold Kidder Peabody to Paine Webber, which eventually dismantled the firm. To determine the best futures contract to hedge with, the risk manager runs a regression of daily changes in the price of zirconium against daily changes in the prices of similar assets that have futures contracts associated with them. 18 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 36. 27 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 63. An analyst is evaluating the performance of a portfolio of Mexican equities that is benchmarked to the IPC Index. Shared use is strictly prohibited.FRM Part II:Access to online products for the May 2022 exam expires on May 27, 2022. Minimize the sum of differences between the actual and estimated squared S&P 500 Index returns. An analyst is analyzing the historical performance of two commodity funds tracking the Reuters/ Jefferies-CRB® Index as benchmark. C 78. D 83. The GARCH(1,1) model always assigns less weight to the prior day's estimated variance than the EWMA model. 10 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 14. C 47. 69. Futures on Commodity A with 6 months to expiration Futures on Commodity A with 9 months to expiration C. A fixed-income consultant is preparing a presentation advising corporate clients on the use of key rate 01's and forward-bucket 01's to monitor and hedge their interest rate exposures. 78. Company XYZ operates in the US. Which of these scenarios is most likely to occur if the stock price falls by USD 1? The term structure is flat. USD 1.35 USD 6.76 USD 14.35 There is no arbitrage opportunity. USD 3.63 D. As such, the Practice Exams were designed to allow candidates to calibrate their preparedness both in terms of material and time. 33. USD 189; buy the futures contract and sell the underlying. EWMA = exponentially weighted moving average 7. The high adjusted R2 indicates that the estimated coefficients on the Russell 1000, Russell 2000, and Russell 3000 Indexes are statistically significant. The collapse of Long Term Capital Management (LTCM) is a classic risk management case study. For a sample of 400 firms, the relationship between corporate revenue (Yi) and the average years of experience per employee (Xi) is modeled as follows: Yi = β1 + β2 * Xi + εi, i = 1, 2,..., 400 An analyst wants to test the joint null hypothesis that β1 = 0 and β2 = 0 at the 95% confidence level. 5. 4.8% 6.4% 6.8% 7.8% © 2018 Global Association of Risk Professionals. If the values of α and β are as indicated below, which combination of values indicates that the variance follows a stable GARCH(1,1) process? Which of the following is not necessarily considered a failure of risk management? The forward curve will be humped. USD 4; buy the futures contract and sell the underlying. Using the prior 12 monthly returns, an analyst estimates the mean monthly return of stock XYZ to be -0.75% with a standard error of 2.70%. The forward contract counterparty is more likely to default. D 14. The futures contract is more liquid and easier to trade. B 54. USD 1,052 USD 1,753 USD 3,243 USD 5,406 Which of the following statements concerning the measurement of operational risk is correct? The interest cost of carrying the delta hedge will be lowest when the options are at-the-money. Which of the following securities should the fund manager buy? 23. In this case, futures would sell for slightly less than forward contracts, which are not affected by interest rate movements in the same manner since forward contracts do not have a daily settlement feature. The CFO's analysis is correct. The current stock price of a share is USD 100.00, and the continuously compounding risk-free rate is 12% per year. The integrity principle recommends that data aggregation should be completely automated without any manual intervention. What are the lower and upper bounds on the difference between the prices of the call and put options? The company estimates that 80% of policyholders who have both an auto and a homeowner policy will renew at least one of those policies next year. 34.5% 57.6% 65.5% 80.0% USD 2.00 USD 2.93 USD 5.22 USD 5.86 Which of the following statements is correct about the early exercise of American options? A risk manager is deciding between buying a futures contract on an exchange and buying a forward contract directly from a counterparty on the same underlying asset. Omitted variable bias occurs when the omitted variable is correlated with the included regressor and is a determinant of the dependent variable. Set dates appropriately to give sufficient study/review time for the practice exam prior to the actual exam. 26 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 60. 6. The only calculators authorized for use on the FRM Exam in 2018 are listed below; there will be no exceptions to this policy. The asset is strongly negatively correlated with interest rates. A portfolio manager is analyzing the impact of yield changes on two portfolios: portfolio ASD and portfolio BTE. A trading portfolio consists of two bonds, A and B. • Complete the entire exam and answer all questions. If the analyst randomly selects a mortgage from the portfolio and it is currently late on its payments, what is the probability that it is a subprime mortgage? A 89. The prices indicate a mixture of normal and inverted markets. B 31. 60% 67% 75% 81% © 2018 Global Association of Risk Professionals. Short 1-year futures and long 2-year futures Short 2-year futures and long 1-year futures Short 1-year futures and long the underlying asset funded by borrowing for 1 year Short 2-year futures and long the underlying asset funded by borrowing for 2 years The price of a six-month, USD 25.00 strike, European put option on a stock is USD 3.00. 3 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam © 2018 Global Association of Risk Professionals. C 65. 15 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 28. The interest cost of carrying the delta hedge will be highest when the options are at-the-money. C 35. The analyst cannot reject the null hypothesis because the F-statistic is not significant at the 95% confidence level. The manager finds that the futures price is less than the forward price. An analyst has been asked to estimate the VaR of an investment in Big Pharma, Inc. Omitted variable bias occurs when the omitted variable is independent of the included regressor and is a determinant of the dependent variable. Assume that a random variable follows a normal distribution with a mean of 40 and a standard deviation of 14. The analyst runs an ordinary least squares regression of the monthly returns of CDM, RCDM, on the monthly returns of the S&P 500 Index, Rm, and obtains the following relation: RCDM = 0.86 Rm - 0.32 The analyst also observes that the standard error of the coefficient of Rm is 0.80. LTCM failed to account properly for the illiquidity of its largest positions in its risk calculations. Questions for the FRM Exam are derived from the core readings. Which of the following statements would be correct to include in the presentation? At LTCM, stress testing became a risk management department exercise that had little influence on the firm's strategy. On Nov. The client would like to invest USD 500,000 in a bond rated at least AA. 11. D 76. The economic research department is forecasting an acceleration of economic activity for the following year, with industrial production forecast to grow 4.2% and interest rates increasing 25 bps to 1.75%. 14. 91. Investors with the lowest risk aversion will typically hold the portfolio of risky assets that has the lowest standard deviation on the efficient frontier. A new quantitative analyst has been asked by the portfolio manager to calculate portfolio VaRs for 10-, 15-, 20-, and 25-day periods. The 2018 FRM Part I and Part II Practice Exams have been developed to aid candidates in their preparation for the FRM Exam in May and November 2018. In order to test the hypothesis H0: = 1 against H1: ≠ 1, what is the correct statistic to calculate? On October 1, 2017, the EUR spot rate is 1.19, and the 6-month EUR forward rate is 1.17. 59. Omitted variable bias occurs when the omitted variable is independent of the included regressor but is not a determinant of the dependent variable. Which position in the futures should the corporation take, and why? C 2. 50. The company will suffer if the EUR moves within a narrow range. B 15. Take a long position in the futures because rising interest rates lead to declining futures prices. For a decrease of GBP 2,000 in income, expected annual savings will increase by GBP 480. The convexity of the callable bond can be estimated as: A. When the autocovariance function is asymmetric with respect to displacement, τ, forward looking stationarity can be achieved. Take a short position in the futures because rising interest rates lead to rising futures prices. The distribution of a time series should have a skewness value near 0, so that its mean will fall in the center of the distribution. C 93. Portfolio ASD has two zero-coupon bonds and portfolio BTE has only one zero-coupon bond. Below is a chart showing the term structure of risk-free spot rates: Which of the following charts presents the correct derived forward rate curve? 1.23 D. The completeness principle recommends that a financial institution should capture data on its entire universe of material risk exposures. The stock price is USD 26.00. For a sample of the past 30 monthly stock returns for McCreary, Inc., the mean return is 4% and the sample standard deviation is 20%. The manager should be indifferent between the bonds if the interest rate is expected to rise since both bonds have the same yield and cash flows. Which of the following is the best way to address this issue? EUR -2,000,000 EUR -1,200,000 EUR 2,000,000 EUR 1,200,000 © 2018 Global Association of Risk Professionals. FRM Part I:Access to online products for the May 2022 exam expires on May 20, 2022. Consult referenced core readings to prepare for the exam. The manager is uncertain about the outlook for interest rates over the next two years but will incorporate the forecast of the company's economist when making the investment decision. Bond B pays annual coupons and is priced at par. The current stock price of a company is USD 80. 1, a fund manager of a USD 60 million US medium-to-large cap equity portfolio, considers locking up the profit from the recent rally. Suppose the Andromeda Fund has an expected annual return of 6.8% and volatility of 7.0% and is benchmarked against the S&P 500 Index. An implementation principle recommended by the Basel Committee to banks for the governance of sound stress testing practices is that stress testing reports should: A. 23 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 53. The company's stock is trading at USD 26.00, and the stock has a daily volatility of 1.5%. A 29. When the underlying asset increases in price, the immediate gain arising from the daily futures settlement will tend to be invested at a lower than average rate of interest due to the negative correlation. Short maturity calls on zero-coupon bonds with long maturity Short maturity calls on principal-only strips from long maturity conforming mortgages Short maturity puts on zero-coupon bonds with long maturity Short maturity puts on interest-only strips from long maturity conforming mortgages © 2018 Global Association of Risk Professionals. Correct answer: D Explanation: In order to minimize basis risk, one should choose the futures contract with the highest correlation to price changes, and the one with the closest maturity, preferably expiring after the duration of the hedge. A hedge fund manager is comparing some forecasting models provided by the firm's modeling team and asks the firm's risk manager to suggest a selection criterion that applies the largest penalty for the number of parameters estimated. Using these estimates, the effective duration of the bond portfolio is closest to: A. The high p-value of 0.9452 indicates that the regression coefficient of the returns of Russell 1000 Index is more statistically significant than the other two indexes. 26. Based on the results, futures tied to which asset would likely introduce the least basis risk into the hedging position? This OLS procedure is designed to: A. The capital market line is the straight line connecting the risk-free asset with the zero beta minimum variance portfolio. The efficient frontier allows different individuals to have different portfolios of risky assets based upon their individual forecasts for asset returns. QUESTIONS 87 AND 88 REFER TO THE FOLLOWING INFORMATION: A risk manager for Bank XYZ is considering writing a 6-month American put option on a non-dividend paying stock ABC. Suggested Use of Practice Exams To maximize the effectiveness of the practice exams, candidates are encouraged to follow these recommendations: 1. Suppose that the 10year yield has increased by 10 bps and that this shock decreases linearly to zero for the 20-year yield. Be separated by business lines to help identify risk concentrations. The manager should prefer the coupon bond if the expected average interest rate over the next 2 years is less than 6%. Futures on both Commodity A and Commodity B are available with 6-month and 9-month expirations. Assuming that after six months the lease rate rises above the continuously compounded interest rate, which of the following statements is correct about the shape of the silver forward curve after six months? Bernoulli Normal Binomial Exponential © 2018 Global Association of Risk Professionals. B 86. Assuming no transactions costs, what is the potential arbitrage profit per contract and the appropriate strategy? QUESTIONS 38 AND 39 REFER TO THE FOLLOWING INFORMATION A risk manager is evaluating the price sensitivity of an investment-grade callable bond using the firm's valuation system. A 10. Based on the regression results, which statement is correct? An analyst is testing a hypothesis that the beta, , of stock CDM is 1. Minimize the square of the sum of differences between the actual and estimated S&P 500 Index returns. 39 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 1. © 2018 Global Association of Risk Professionals. 0.5% 1.0% 10.0% 15.0% © 2018 Global Association of Risk Professionals. The forward curve will be upward sloping. Suppose that it is exactly one year before expiration of the swap contract and just in time for the year 3 cash flow payments and receipts when the exchange rate is USD 1.044 per EUR 1, the 1-year French risk-free rate is 3.0% and the 1-year US Treasury rate is 2.0%. Its questions are derived from a combination of theory, as set forth in the core readings, and "real-world" work experience. D 51. D 84. Both bond prices will move up, but bond B will gain more than bond A. B 75. 96. Current stock price Stock price volatility Risk-free rate Call option exercise price N(d1) N(d2) USD 40 16% per year 3% per year USD 40 0.5750 0.5116 What is the price of the 1-year call option on the stock? If the current market price of a stock is USD 60, which of the following options on the stock has the highest gamma? A is a zero-coupon bond, and its current price is USD 900. It is strongly suggested that candidates study these readings in depth prior to sitting for the Exam. It is never optimal to exercise an American put option on a non-dividend-paying stock before the expiration date. VaR = value-at-risk 4. Correct answer: C Explanation: From the equation for put-call parity, this can be solved by the following equation: c = S0 + p - PV(K) - PV(D) where PV represents the present value, so that PV (K) = K ∗ e ;LM and PV (D) = D ∗ e ;LO Where: p is the put price, c is the call price, K is the strike price of the put option, D is the dividend, S0 is the current stock price. Portfolio ASD Portfolio BTE USD 102,000 USD 65,000 USD 110,000 USD 70,000 USD 118,000 USD 74,000 USD 127,000 USD 79,000 A financial institution entered into a 4-year currency swap contract with a French industrial company. 97. Merge external data from other banks with the bank's internal data after making appropriate scale adjustments. 51. Six-month, risk-free, zero-coupon bonds with face value USD 1,000 trade in the fixed-income market. Correct answer: A Explanation: According to the Trust Indenture Act, if a corporate issuer fails to pay interest or principal, the trustee may declare a default and take such action as may be necessary to protect the rights of bondholders. B 9. D 20. USD 41.17 million USD 43.06 million USD 43.28 million USD 50.28 million © 2018 Global Association of Risk Professionals. An analyst is examining a portfolio that consists of 1,000 subprime mortgages and 600 prime mortgages. The estimated coefficient of 0.3533 indicates that the returns of the Russell 3000 Index are more statistically significant in determining the portfolio returns than the other two indexes. Candidates are only allowed to bring certain types of calculators into the exam room. A risk analyst is estimating the variance of stock returns on day n, given by 34 , using the equation 4 4 34 = V8 + u3;< + 3;< , where u3;< and 3;< represent the return and volatility on day n-1, respectively. An individual investor can affect the price of a stock by buying or selling stocks. 6 2018 FRM Part I Practice Exam – Questions .... The stock price can go up or down by 20% each period. The trustee has the authority to declare a default if the issuer misses a payment. • Allocate 4 hours to complete FRM Part I Practice Exam and 4 hours to complete FRM Part II Practice Exam and keep track of your time. 84. D 87. 100. 97.04, 97.04, 87.34, 87.34 97.04, 100.00, 90.00, 90.00 100.00, 100.00, 87.34, 90.00 100.00, 100.00, 90.00, 90.00 VaR(10-day) = USD 316M VaR(15-day) = USD 465M VaR(20-day) = USD 537M VaR(25-day) = USD 600M A portfolio manager uses a valuation model to estimate the value of a bond portfolio at USD 125.00 million. The EWMA model is a special case of the GARCH(1,1) model with the additional assumption that the long-run volatility is zero. Increasing the organization's risk appetite and its expected return on new projects Improving the firm's risk reporting practices Allowing the board of directors to validate risk models to ensure their accuracy Increasing the expected correlation between risk factors where there is exposure across the enterprise © 2018 Global Association of Risk Professionals. The trustee is paid by the bondholders or their representatives. 95. 75. 14 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 26. Which of the portfolios would likely have the highest potential level of unexpected loss during a sharp broad-based downturn in financial markets? D 44. 67. Economic capital should be sufficient to cover both expected and worst-case operational risk losses. Estimate the parameters of a Poisson distribution to model the loss severity of operational losses. Of the subprime mortgages, 200 are late on their payments. Payments were to be made every 6 months. Short the forward contract and short the zero-coupon bond. 4 2018 FRM Part I Practice Exam – Special Instructions and Definitions .... 35 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 90. B 70. According to the CAPM, which of the following statements is correct with respect to the efficient frontier? A 19. A trader writes the following 1-year European-style barrier options as protection against large movements in a non-dividend paying stock that is currently trading at EUR 42.80. Mean squared error Akaike information criterion Schwarz information criterion Mean squared error corrected for degrees of freedom The volume in a specific contract is greater than the open interest. The sum of all forward bucket '01 shifts is equal to shifting the entire forward curve by one basis point. The company expects to receive this amount on April 1, 2018. GARCH = generalized auto-regressive conditional heteroskedasticity 6. A 98. 45. EUR 39.00 EUR 40.62 EUR 41.20 EUR 42.36 Generate additional data using Monte Carlo simulation and merge it with the bank's internal historical data. C 46. The hybrid approach for estimating VaR is the combination of a parametric and a nonparametric approach. 44. 29. LIBOR = London interbank offer rate 9. Of the prime mortgages, 48 are late on their payments. The proper selection of factors to include in an ordinary least squares estimation is critical to the accuracy of the result. An analyst is trying to get some insight into the relationship between the return on stock LMD (RLMD,t) and the return on the S&P 500 index (RS&P,t). C 90. 47. The current stock price is USD 50, and the strike price of the option is USD 52. USD 2.40 C. Assuming defaults are independent, what is the probability that there is at most one default next year? C 16. Estimate relevant probabilities using loss information that is published by credit rating agencies. Using the company's estimates, what is the percentage of policyholders that will renew at least one policy next year? A 63. A risk manager wishes to hedge an investment in zirconium using futures. 2 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam • Have only the practice exam, candidate answer sheet, calculator, and writing instruments (pencils, erasers) available. Assuming no transaction costs or taxes, which of the following numbers comes closest to the arbitrage profit that can be realized by taking a position in one futures contract? 40 1/5/2018 2PM © 2018 Global Association of Risk Professionals. What is expected to happen to the market prices of A and B if the risk-free yield curve moves up by one bp? A 61. What is the mean and variance of the number of bonds defaulting over the next year? 0.036 0.047 0.389 0.558 © 2018 Global Association of Risk Professionals. 68. All rights reserved. An insurance company estimates that 40% of policyholders who have only an auto policy will renew next year, and 70% of policyholders who have only a homeowner policy will renew next year. The CFO of XYZ wants to protect the value of this receivable. The company will suffer if the EUR goes down sharply. B © 2018 Global Association of Risk Professionals. Assuming continuous compounding, which of the following are the best estimates to the decrease in the values of the two portfolios due to the effects of duration and convexity? A 40. USD 0.28 USD 0.32 USD 0.57 USD 2.84 Assume that portfolio daily returns are independently and identically normally distributed. Section: Financial Markets and Products Reference: John C. Assuming the risk-free rate is 1.8% per year, what is the common strike price of these options? 33 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 82. 86. The manager wants to know whether the time series is covariance stationary. Sell 71 futures contracts of S&P 500 Index Sell 103 futures contracts of S&P 500 Index Sell 148 futures contracts of S&P 500 Index Sell 167 futures contracts of S&P 500 Index A risk analyst at a commodities trading firm is examining the supply and demand conditions for various commodities and is concerned about the volatility of the forward prices for silver in the medium term. 13. Which of the following statements about risk management at LTCM is correct? A 48. B 38. Buy the forward contract and short the zero-coupon bond. 0.17 1.19 1.23 1.29 An investor sells a January 2016 call on the stock of XYZ Limited with a strike price of USD 50 for USD 10, and buys a January 2016 call on the same underlying stock with a strike price of USD 60 for USD 2. Correct answer: C Explanation: When an asset is strongly negatively correlated with interest rates, futures prices will tend to be slightly lower than forward prices. There are transaction costs associated with buying and selling assets. CDS = credit-default-swap(s) 11. 17 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 33. It can be optimal to exercise an American put option on a non-dividend-paying stock early. 54. What percentage of this distribution is not between 12 and 61? RAROC = risk-adjusted return on capital 16. An oil driller recently issued USD 250 million of fixed-rate debt at 4.0% per year to help fund a new project. There is no contract with maturity in a particular month. Which of the following represents a key benefit for the firm that it will likely attain after establishing an ERM framework? A swap desk analyst for a large investment bank that is a market maker in swaps has identified four firms interested in swapping their debt from floating-rate to fixed-rate. If the risk-free rate is 2.2% per year, what is the beta of the Andromeda Fund according to the CAPM? 4. Which of the following statements regarding the trustee named in a corporate bond indenture is correct? The company will suffer if the EUR goes up sharply. The portfolio manager notices something amiss with the analyst's calculations displayed below. α = 0.082427 and β = 0.925573 α = 0.084427 and β = 0.905573 α = 0.085427 and β = 0.925573 α = 0.090927 and β = 0.925573 © 2018 Global Association of Risk Professionals. The DV01 of a comparable bond with no embedded options having the same maturity and coupon rate is closest to: A. D 99. Take a short position in the futures because rising interest rates lead to declining futures prices. The manager is comparing two bond issues that have equal yield to maturity at origination. A 100. The following table quotes available loan rates for the oil driller and each firm: A swap between the oil driller and which firm offers the greatest possible combined benefit? bp(s) = basis point(s) 17. In characterizing various dimensions of a bank's data, the Basel Committee has suggested several principles to promote strong and effective risk data aggregation capabilities. 0.17 B. D 30. Since the population variance is unknown, the standard error of the sample mean is estimated to be: S> = 20% 30 = 3.65% The related t-table values are (ti,j denotes the (100-j)th percentile of t-distribution value with i degrees of freedom): t29,2.5 t29,5.0 t30,2.5 t30,5.0 2.045 1.699 2.042 1.697 What is the 95% confidence interval for the mean monthly return? However, there is a limited amount of historical data on operational risk losses. 24 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 54. 17. A French bank enters into a 6-month forward contract with an importer to sell GBP 60 million in 6 months at a rate of EUR 1.15 per GBP. C 39. The interest cost of carrying the delta hedge will be highest when the options are deep out-of-the-money. 8 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 8. Access to online products for the November 2022 exam expires on November 18, 2022.Kaplan Schweser releases a new version of products every year as the FRM curriculum changes. Using historical data, the analyst estimates the following: Annual mean return for LMD: 11% Annual mean return for S&P 500 index: 7% Annual volatility for S&P 500 index: 18% Covariance between the returns of LMD and S&P 500 index: 6% Assume the analyst uses the same data to estimate the regression model given by: R "#$,& = α + β ∗ R -&/,& + ε& Using the ordinary least squares technique, which of the following models will the analyst obtain? A risk manager is analyzing several portfolios, all with the same current market value. The annual risk-free rate is 12% with continuous compounding. 63. The p-value for the F-statistic for the regression is 0.045. If we assume that the expected return on the DJ EURO STOXX 50 Index is 0%, the 99% 1-day VaR of a short position on a single call option calculated using the delta-normal approach is closest to: A. If in 6 months the exchange rate is EUR 1.13 per GBP, what is the payoff for the bank from the forward contract? What is the beta of the portfolio? A portfolio of mezzanine tranche MBS structured by a large regional bank. Futures on Commodity A have a correlation of 0.85 with the price of plastic, and futures on Commodity B have a correlation of 0.92 with the price of plastic. 88. A 58. B 6. A dividend of USD 1.00 is expected in three months. Investors should consider their personal income taxes in making investment decisions. Under the terms of the swap, the financial institution receives interest at 3% per year in EUR and pays interest at 2% per year in USD. The FRM Exam is also a comprehensive examination, testing a risk professional on a number of risk management concepts and approaches. Execute the order immediately or not at all. B 23. Which of the following activities should take place as part of the process of developing the company's risk appetite? Have limited input from their respective business areas to prevent biasing of the results. In comparing a strip hedge to a stack and roll hedge, which of the following statements is correct? IR for Fund I = 0.248, IR for Fund II = 0.224; Fund II performed better as it has a lower IR. C. Leeson avoided reporting the unauthorized trades by convincing the head of his back office that they did not need to be reported. Correct answer: D Explanation: The 1-year futures price should be 1,000 ∗ e H.H4 = 1,020.20 The 2-year futures price should be 1,000 ∗ e H.H4∗4 = 1,040.81 The current 2-year futures price in the market is overvalued compared to the theoretical price. USD 32,595 USD 145,770 USD 2,297,507 USD 2,737,737 You are using key rate shifts to analyze the effect of yield changes on bond prices. A risk manager performs an ordinary least squares (OLS) regression to estimate the sensitivity of a stock's return to the return on the S&P 500 Index. USD 72,150 USD 78,325 USD 117,325 USD 156,650 The six-month forward price of commodity X is USD 1,000. Which of the following led up to the sale? In order to find the no-arbitrage price of the option, the manager uses a two-step binomial tree model. It now wants to convert this debt to a floating-rate obligation using a swap. 20. D 24. The p-value for the t-statistic for β1 is 0.07, and the p-value for the t-statistic for β2 is 0.06. 42 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 4. Take a long position in the futures because rising interest rates lead to rising futures prices. 73. Alternatively, the CFO can sell a 6-month EUR 5,000,000 call option with strike price of 1.19. 61. If the EUR goes down, the contract will not be exercised. The underlying index is currently valued at USD 3,625 and has a continuously-compounded dividend yield of 2% per year. C 56. [-3.467%, 11.467%] [-3.453%, 11.453%] [-2.201%, 10.201%] [-2.194%, 10.194%] An analyst on the fixed-income trading desk observed that the number of defaults per year in the bond portfolio follows a Poisson process. The average number of defaults is four per year. Investors have the same expectations regarding expected returns, the variance of returns, and the correlation structure between all pairs of stocks. 85. A 73. The table below displays the actual annual 6-month LIBOR rates over the 2-year period: Assuming no default, how much did Savers Bancorp receive on August 9, 2016? A trader in the arbitrage unit of a multinational bank finds that an asset is trading at USD 1,000, the price of a 1-year futures contract on that asset is USD 1,020, and the price of a 2-year futures contract is USD 1,045. The board of directors of a diversified industrial firm has asked the risk management group to prepare a risk appetite for the organization. The autocovariance of a covariance stationary time series depends only on displacement term, τ, not on time. It has chosen to use futures on 10-year German government bonds. Trustees can only perform the actions indicated in the indenture, but are typically under no obligation to exercise the powers granted by the indenture even at the request of bondholders. 56. The risk-free rate is 3.5%, continuously compounded. 53. The returns on Prudent Fund are normally distributed with a mean of 3% and a standard deviation of 7%, and the returns on Aggressive Fund are normally distributed with a mean of 7% and a standard deviation of 15%. 43. 32 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 79. Minimize the sum of squared differences between the actual and estimated stock returns. is a manufacturer that is heavily dependent on plastic parts shipped from Malaysia. 46. When does omitted variable bias occur? Both have modified duration of three years and face value of USD 1,000. IR for Fund I = 0.212, IR for Fund II = 0.155; Fund I performed better as it has a higher IR. What is Jensen's alpha for portfolio A? The data for the three US Treasuries are listed below: Which of the following combinations correctly describes the weights of the two bonds that the manager will use to construct the barbell portfolio? The CFO can lock in an exchange rate by taking a position in the forward contract. The event of default for each of the bonds is independent. An asset manager at an insurance company is considering making a fixed income investment and holding it for 2 years. The strike price for both options is USD 35 and the risk-free rate is 1.5%. All of the options have the same strike price. The current balance on the loans is USD 32 million, and the conditional prepayment rate is assumed to be constant at 0.6% per year. 30 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 74. 16. The producer wishes to hedge this liability using futures in order to address the possibility of an upward movement in oil prices. 55. The table below presents information on the bond as well as on the embedded option. At the end of the 2nd year, the trader would sell the asset at USD 1,045 and return the borrowed money with interest, which would be 1,000 ∗ e H.H4∗4 = 1,040.81, resulting in a USD 4.19 gain. C 85. If the existing mortgage was refinanced into a new 30-year, 4% fixed rate mortgage, which of the following is closest to the amount that the homeowner would save in monthly mortgage payments? Increase of 0 bp Increase of 4 bps Increase of 6 bps Increase of 10 bps The efficient frontier is defined by the set of portfolios that, for each volatility level, maximizes the expected return. 8. For this sample data, the average error term is GBP -25.66. The forward curve will be flat. The other three choices would all most likely result in the futures price being higher than the forward price. OIS = overnight indexed swap 10. B 22. Assuming continuous compounding, what is the value of the swap to the financial institution at the end of year 3? Correct answer: B Explanation: The forward rate, Ft, is given by the interest rate parity equation: FO = SH ∗ e (L;LS)O where S0 is the spot exchange rate, r is the domestic (USD) risk-free rate rf is the foreign (EUR) risk-free rate, and t is the time to delivery Substituting the values in the equation: FO = 1.18 ∗ e H.H4P;H.H Futures on Commodity A with 6 months to expiration Futures on Commodity A with 9 months to expiration Futures on Commodity B with 6 months to expiration Futures on Commodity B with 9 months to expiration An analyst is examining the exchange rate between the US dollar and the euro and is given the following information regarding the EUR/USD exchange rate and the respective risk-free interest rates: • • • Current EUR/USD exchange rate: 1.18 Current USD-denominated 1-year risk-free interest rate: 2.5% per year Current EUR-denominated 1-year risk-free interest rate: 1.5% per year According to the interest rate parity theorem, what is the 1-year forward EUR/USD exchange rate? CZC announces that it will pay a dividend of USD 0.50 per share on an exdividend date 1 month from now and has no further dividend payout plans for at least 1 year. Which of the following is closest to the expected principal prepayment this month? The distribution of a time series should have a kurtosis value near 3.0, ensuring no fat tails will distort stationarity. 48. Mean = 0.15, variance = 0.32 Mean = 0.45, variance = 0.38 Mean = 0.45, variance = 0.32 Mean = 0.15, variance = 0.38 An investment advisor is analyzing the range of potential expected returns of a new fund designed to replicate the directional moves of the Straits Times Index (STI) but with twice the volatility of the index. USD 1.63 B. 82. 25. The analyst can reject the null hypothesis because each β is different from 0 at the 95% confidence level. 80. The 2018 FRM Part I Practice Exam contains 100 multiple-choice questions and the 2018 FRM Part II Practice Exam contains 80 multiple-choice questions, the same number of questions that the actual 2018 FRM Exam Part I and 2018 FRM Exam Part II will contain. LTCM's use of high leverage is evidence of poor risk management. The continuously compounded riskfree rate for all maturities is 5% per year. D 77. B 72. 40 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 2. Which of the following statements concerning the collapse of Barings is correct? Currently, silver is trading at a spot price of USD 20.35 per troy ounce and the six-month forward price is quoted at USD 20.50 per troy ounce. What is the effect of this shock on the 14-year yield? If the strike price for all options is USD 90.00, what are the maximum possible prices for a 3month European call option, American call option, European put option, and American put option? The continuously compounded risk-free rate for all maturities is 5% per year. Both bond prices will move down, but bond B will lose more than bond A. The results are shown below. Bank A and Bank B are two competing investment banks that are calculating the 1-day 99% VaR for an atthe-money call on a non-dividend-paying stock with the following information: • • • • Current stock price: USD 120 Estimated annual stock return volatility: 18% Current Black-Scholes-Merton option value: USD 5.20 Option delta: 0.6 To compute VaR, Bank A uses the linear approximation method, while Bank B uses a Monte Carlo simulation method for full revaluation. B 59. 36. The CEO, CFO, CIO, and CRO are the chief executive, financial, investment, and risk officers, respectively. -1.00 0.64 0.80 1.00 Failure to use appropriate risk metrics Failure to minimize losses on credit portfolios Failure in communicating risk issues to top management Incorrect measurement of known risks Portfolio A has an expected return of 8%, volatility of 20%, and beta of 0.4. Assume that the market has an expected return of 10% and volatility of 25%. 5 2018 FRM Part I Practice Exam – Candidate Answer Sheet .... The adaptability principle recommends that a bank should frequently update its risk reporting systems to incorporate changes in best practices. A 60. The analyst cannot reject the null hypothesis because neither β is different from 0 at the 95% confidence level. Senior management has asked an analyst to estimate the likelihood that returns on the combined portfolio will exceed 26%. 22. 4.56% 6.18% 8.96% 18.15% 0.4% 0.7% 3.0% 10.0% The recent performance of Prudent Fund, with USD 50 million in assets, has been weak and the institutional sales group is recommending that it be merged with Aggressive Fund, a USD 200 million fund. USD 2.85 A. 13 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 25. 12. 76. 74. 7 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 5. D. Barings was forced to declare bankruptcy after reporting over USD 1 billion in unauthorized trading losses by a single trader, Nick Leeson. A 32. Pear, Inc. The price of a six-month, USD 25.00 strike, European put option on a stock is USD 3.00. Hull, Options, Futures, and Other Derivatives, 10th Edition (New York, NY: Pearson, 2017), Chapter 5 - Determination of Forward and Futures Prices Learning Objective: Calculate the forward price given the underlying asset's spot price, and describe an arbitrage argument between spot and forward prices. USD 1,920 USD 3,200 USD 13,364 USD 16,044 An operational risk analyst is attempting to estimate a bank's loss severity distribution. Assuming that weekly returns are independent and identically distributed, what is the standard deviation of the mean weekly return? 98. Access to online products for the November 2022 exam expires on November 25, 2022.Kaplan Schweser releases a new version of products every year as the FRM curriculum changes. Unless otherwise indicated, option contracts are assumed to be on one unit of the underlying asset. Which of the following is a potential consequence of violating the GARP Code of Conduct once a formal determination is made that such a violation has occurred? USD -7.603 million USD -7.456 million USD -7.068 million USD -6.921 million © 2018 Global Association of Risk Professionals. For a household with no income, annual savings is GBP 0. 40. 1.0% 2.5% 5.0% 10.0% © 2018 Global Association of Risk Professionals. Leeson traded primarily in OTC foreign currency swaps that allowed Barings to delay cash payments on losing trades until the first payment was due. The advisor has gathered the following information: Which bond should the investment advisor purchase for the client? 24. C 66. In the real world, a risk manager must be able to identify any number of risk-related issues and be able to deal with them effectively. 15. Assuming the returns on the two funds are independent, the analyst's estimate for the probability that the returns on the combined fund will exceed 26% is closest to: A. The analyst can reject the null hypothesis because the F-statistic is significant at the 95% confidence level. Kidder Peabody suffered a large loss when counterparties to its CDS portfolio could not honor their contracts, which left the company with little equity. B 3. 25 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 56. Assume that there are no cash flows from the asset for 2 years. 2. ES = expected shortfall 5. 27. An analyst is estimating the sensitivity of the return of stock A to different macroeconomic factors. D 81. Candidates are expected to understand risk management concepts and approaches and how they would apply to a risk manager's day-to-day activities. B 25. B 64. 7. It is very rare that a risk manager will be faced with an issue that can immediately be slotted into one category. Mortgage rates have been decreasing. 42. The mean weekly return is 7% and the standard deviation of the return series is 15%. A stack and roll hedge tends to involve fewer transactions. 37 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 98. There is no penalty on the FRM Exam for an incorrect answer. B. The transaction costs on the futures contract are less than on the forward contract. 81. The principal amounts are EUR 50 million and USD 60 million, and interest payments are exchanged once a year. In the EWMA model, the weights assigned to observations decrease exponentially as the observations become older. 16 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 30. USD 189; sell the futures contract and buy the underlying. B 4. Kidder Peabody reported a large quarterly loss from highly leveraged positions, which left the company insolvent and on the verge of bankruptcy. Unless otherwise indicated, interest rates are assumed to be continuously compounded. The settlement price for a specific contract is above the high price. 58. A 97. Consider an American call option and an American put option, each with 3 months to maturity, written on a non-dividend-paying stock currently priced at USD 40. 29% 41% 53% 57% A risk manager is calculating the VaR of a fund with a data set of 25 weekly returns. A risk manager is monitoring call and put options on the stock with exercise prices of USD 50 and 5 days to maturity. A portfolio manager controls USD 88 million par value of zero-coupon bonds maturing in 5 years and yielding 4%. Hull, Options, Futures, and Other Derivatives, 10th Edition (New York, NY: Pearson, 2017), Chapter 5 - Determination of Forward and Futures Prices Learning Objective: Explain the relationship between forward and futures prices. 1.29 A. The forward curve will be downward sloping. -6.69% and 5.19% -6.63% and 5.15% -5.60% and 4.10% -5.56% and 4.06% Using data from a pool of mortgage borrowers, a credit risk analyst performed an ordinary least squares regression of annual savings (in GBP) against annual household income (in GBP) and obtained the following relationship: Annual Savings = 0.24 * Household Income - 25.66, R^2 = 0.80 Assuming that all coefficients are statistically significant, which interpretation of this result is correct? 1.19 C. Kidder Peabody had its primary dealer status revoked by the Federal Reserve after it was found to have submitted fraudulent bids at US Treasury auctions. When taken in the correct amounts, which of the following strategies creates a synthetic long position in commodity X for a period of 6 months? Company records show that 70% of policyholders have an auto policy, 50% of policyholders have a homeowner policy, and 20% of policyholders have both an auto and a homeowner policy. A 95. C 94. Ignoring liquidity considerations, which contract would be the best to minimize basis risk? Bear spread B. The key rate shift of the 10-year par rate leads to higher spot rates for all maturities. Omitted variable bias occurs when the omitted variable is correlated with the included regressor but is not a determinant of the dependent variable. USD 4; sell the futures contract and buy the underlying. The loss at Barings was detected when several customers complained of losses on trades that were booked to their accounts. Which one of following VaRs on this portfolio is inconsistent with the others? One is a semi-annual coupon bond paying 7%, maturing in 2 years, and priced at USD 101.86. A short position in futures for industrial commodities such as copper and steel. 28 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 66. Futures on Commodity B with 9 months to expiration A. In the GARCH(1,1) model, a positive weight is estimated for the long-run average variance. What is the risk-neutral probability of the stock price going up in a single step? D 50. 89. Hence, c = 26.00 + 3.00 – 24.38 – 0.99 = USD 3.63 Section: Financial Markets and Products Reference: John C. A stock index is valued at USD 750 and pays a continuous dividend at the rate of 2.0% per annum. 21. A strip hedge tends to have smaller bid-ask spreads. In the EWMA model, some positive weight is assigned to the long-run average variance. 12 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 22. Also, assume a risk-free rate of 5%. 31. A 42. Weight of 2-Year Treasury Weight of 15-Year Treasury 14.22% 85.78% 44.46% 55.54% 55.54% 44.46% 85.78% 14.22% Not be passed up to senior management without first being approved by middle management. 70. A variance estimate from the EWMA model is always between the prior day's estimated variance and the prior day's squared return. Hull, Options, Futures, and Other Derivatives, 10th Edition (New York: NY: Pearson, 2017), Chapter 3 - Hedging Strategies Using Futures Learning Objective: Define the basis and explain the various sources of basis risk, and explain how basis risks arise when hedging with futures. The trustee may take action beyond the indenture to protect bondholders. Calculating PV(K) , the present value of the strike price, results in a value of 25.00 ∗ e ;H.HP∗H.P or 24.38, while PV(D) is equal to 1.00 ∗ e ;H.HP∗H.4P , or 0.99. The 2018 FRM Practice Exams do not necessarily cover all topics to be tested in the 2018 FRM Exams as any test samples from the universe of testable possible knowledge points. Additional information on the portfolio is provided in the table below: To assess the potential effect of a parallel shift in the yield curve on portfolio values, the manager runs a scenario in which yields increase by 200 bps across all points of the yield curve. If a 1-year zerocoupon bond is priced at USD 98 and a 1-year bond paying an 8% coupon semi-annually is priced at USD 112, what should be the price of a 1-year Treasury bond that pays a coupon of 6% semi-annually? C 34. 25.00% © 2018 Global Association of Risk Professionals. Short 2-year futures and long the underlying asset funded by borrowing for 2 years A. 93. 4 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam Special Instructions and Definitions 1. A market-if-touched order would be used if the investor wants to: A. Buy the forward contract and buy the zero-coupon bond. Firm A Firm B Firm C Firm D Scenario A Scenario B Scenario C Scenario D A German housing corporation needs to hedge against rising interest rates. Pear wants to hedge its exposure to plastic price shocks over the next 7 ½ months. In addition, the manager estimates a convexity of 34.51 for portfolio ASD and 36.00 for portfolio BTE. After completing the practice exams • Calculate your score by comparing your answer sheet with the practice exam answer key. B 21. 77. A. Constructing a list of all risks to which the company could potentially be exposed to Deciding the total amount of risk the company is willing to accept across the organization Determining the maximum amount of exposure to each specific risk factor the company is willing to maintain Communicating a risk governance strategy across the organization Formal notification to the GARP Member's employer of such a violation Suspension of the GARP Member's right to work in the risk management profession Removal of the GARP Member's right to use the FRM designation Required participation in ethical training A risk manager at a major global bank is conducting a time series analysis of equity returns. The 6month futures contract on that index is trading at USD 770. 29 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 70. 41. C 5. The S&P 500 Index and its futures with the multiplier of 250 are trading at 2,110 and 2,120, respectively. The current stock price is USD 82 with a daily stock return volatility of 1.62%, and the delta of the option is 0.6. Using the delta-normal approach to calculate VaR, what is an approximation of the 1-day 95% VaR of this position? B 71. 43 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 6. 37. The manager would like to create a cost matching barbell portfolio by purchasing a combination of a 2-year Treasury and a 15-year Treasury that would have the same duration as the 7-year US Treasury position. Bear spread C. The analyst collated the data on the monthly returns and decided to use the information ratio (IR) to assess which fund achieved higher returns more efficiently, and presented the findings. Both contracts would have the same maturity and delivery specifications. The other is a zero-coupon bond, also maturing in 2 years, and priced at USD 88.85. An investor with a long position in a futures contract wants to issue instructions to close out the position. Section: Financial Markets and Products Reference: Frank Fabozzi (editor), The Handbook of Fixed Income Securities, 8th Edition (New York: McGraw Hill, 2012), Chapter 12 - Corporate Bonds Learning Objective: Describe a bond indenture and explain the role of the corporate trustee in a bond indenture. A 68. D 82. The sum of all key rate '01s is equal to the change in price from shifting the yield to maturity by one basis point. 62. An at-the-money European call option on the DJ EURO STOXX 50 Index with a strike of 2,800 and maturing in 1 year is trading at EUR 350, where contract value is determined by EUR 10 per index point. EUR 8 EUR 53 EUR 84 EUR 669 © 2018 Global Association of Risk Professionals. A stack and roll hedge tends to have greater liquidity. What is the market value of the 1.5year bonds that the portfolio manager should purchase to reduce the duration on the combined position to 3 years? 38 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 2018 FRM Part I Practice Exam – Answer Key 1. B 13. Bank A Bank B Both will have the same VaR estimate Insufficient information to determine In evaluating the dynamic delta hedging of a portfolio of short option positions, which of the following is correct? 39. B 43. Kidder Peabody reported a sudden large accounting loss to correct an error in the firm's accounting system, which called into question the management team's competence. USD 1.52 USD 1.78 C. B 62. The interest cost of carrying the delta hedge will be highest when the options are deep in-the-money. Futures on both Commodity A and Commodity B are available with 6-month and 9month expirations. 32. D 79. 20 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam 43. 2018 FRM ® PRACTICE EXAM PART I FINANCIAL RISK MANAGER garp.org/frm 2018 Financial Risk Manager Examination (FRM) Part I Practice Exam Table of Contents Introduction to 2018 FRM Part I Practice Exam .... 6.58% 7.33% 9.16%.

A random sample of 50 FRM exam candidates was found to have an average I.Q. of 125. The standard deviation among candidates is known (approximately 20). Assuming that I.Q.s follow a normal distribution, carry out a statistical test (5% significance level) to determine whether the average I.Q. of FRM candidates is greater than 120. sir, your page very useful...but i want to say somthing....dnt mistake me... past group1 exam(nov 8) contains 44 current affairs questions. but in your portal only half of that informations presented (nearly 22-26 ques) . so i request you to help for getting full score in current affairs sir.... becaz i hope ur website only for standaed ... The ITIL Foundation exam fee varies for different countries. In the United States, the exam fee is $314; while it costs £269.00 in the United Kingdom, $314.00 in Canada and AU $395 in Australia. You can get more information about the exam fee from your accredited training course provider in the country you intend to take the certification exam. Discover the latest MLB News and Videos from our Experts on Yahoo Sports. Comprehensive National Football League news, scores, standings, fantasy games, rumors, and more 24.04.2012 · Also Read: PPDT-Picture Perception and Discussion Test; 10 reasons why you are screened out from SSB; TAT SSB Sample pictures download; 1.ajay k Rahul is an young graduate who is coming from his frnds house late night.On his way to his house heavy rain dropped in with huge thunders and lightnings.He ran under the village community building for shelter.He ... 27.08.2014 · 金融风险管理师———— Financial Risk Manager（FRM）证券从业资格证书———— Certificate of Securities. 国际贸易单证员证书—— Certificate of International Commercial Documents. 报关员资格证书———— Certificate of Customs Specialist. 报检员资格证书———— Certificate of Inspection 17.04.2022 · If you want to prepare yourself for the TNPSC Group 4 Exam, you need these Group4 Mock Question Papers. S.No: Gr-IV Model Papers 2022: ... Exam Language: Tamil / English: Exam Date: 24th July 2022: ... Sankar paper 2 and 3 tnpsc group 1 mains English medium post pannunga sir please. Reply. Presilla saleth Mary.A. July 13, 2019 at 1:37 pm ... I confused for choose for medium english or hindi written main civil service exam ..best result of cse eglidh ys hindi... i am not clear my concept in English language..i am totally concept clear in hindi medium for capable written main exam..but hindi medium results are down for last 2 yrs . you suggest for me best medium for written main exam ...

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