INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: **Risk Management & Investment Management**

Chapter: **Unit 3**

Category: **Practice Questions**

1. Define Operational Risk and list some of the major factors responsible for it.
2. Who was Joseph Jett and which weakness in the system did he exploit? What was the type of risk his firm was exposed to due to his behaviour and the quantum of losses faced?
3. "Barings Bank committed a mistake with regards to the responsibilities and roles assigned to Jack Leeson". Explain.
4. What was the size of losses at Baring Bank? And state the eventual result of the Bank fraud case?
5. What were the Janakiraman Committee's findings in the Harshad Mehta scam case?
6. Ketan Parekh broke one of the cardinal rules to be followed by Directors of Banks. Discuss about it.
7. Which outcomes arose as a result of the Ketan Parekh scam case?
8. Discuss about what LoUs (Letters of Undertaking) are? How did Nirav Modi and Mehul Choksi misuse these instruments to defraud Indian banks?
9. How did the PMC bank misclassify certain loans it had given to HDIL? What elaborate mechanisms did they utilize to defraud the depositors of the bank?
10. Why did the Forward Market Commission (FMC) intervene in the NSEL's functioning and what was the result?
11. Following which historical event did LTCM fail? What weakness in their overall strategy led to them falling prey to this event?
12. The LTCM case also gives an insight into problems cause by correlations during times of crisis. Comment.
13. List out the pitfalls which let the London Whale incident happen at JP Morgan.
14. Define Business Risk. List the factors which influence it.

15. A marketing strategy devised by MGRM failed spectacularly. What was the strategy and what were the resulting losses?

16. Who sued Banker's Trust (BT) and for what? What services did BT provide to these firms and what was the conflict?

17. Which facets of management could BT have handled better? What was the result of the case?

18. How did Enron deceive the market? What was the method it used?

19. What was JP Morgan and Citigroup's failure with regards to the Enron case? What was the overall result from the case?

20. Which banking industry trends contributed significantly to the lending boom and housing frenzy?

21. What is securitization? In that regard, differentiate between "super senior tranche" and "junior tranche"/"equity tranche".

22. What is a liquidity backstop? How does it deceive investors looking at a Bank's balance sheet?

23. How did a relative increase in the use of overnight repos impact the functioning of investment banks and what risks were involved with it?

24. What is "pipeline risk? How did it lead to a lowering of credit standards and what was the result?

25. What was the difference between subprime mortgages before and after 2000?

26. How were lending standards relaxed in the US? What was it's impact and how did the federal government play a part in it?

27. How were securitized products used to the build-up of the financial crisis? What was the consequence of their irresponsible use?

28. What is Market Liquidity and it's three sub-forms?

29. How do Funding Liquidity and Market Liquidity interact?

30. How do "loss spirals" arise for leveraged investors? Describe with an example.

31. Explain why lenders are unwilling to lend after substantial price-drops.

32. What are runs of financial institutions? When do they occur?

33. How do lenders inadvertently amplify such financial crisis? Comment with regards to "moral hazard" and "precautionary hoarding".

34. What role did Counterparty credit risk play worsening the credit crunch before the crisis?

35. How did hoarding of liquidity by US banks following the credit crunch transfer to the real sector and cause the financial crisis?

36. What substitutes did institutional cash pools find to US Treasuries which were held abroad? How did it lead to a shadow banking system?