INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: RM&IM

Chapter: Unit 1 & 2

Category: Assignment 1

MCQS

1. A growing regional bank has added a risk committee to its board. One of the first recommendations of the risk committee is that the bank should develop a risk appetite statement. What best represents a primary function of a risk appetite statement?

A. To quantify the level of variability for each risk metric that a firm is willing to accept
B. To state specific new business opportunities that a firm is willing to pursue
C. To assign risk management responsibilities to specific internal staff members
D. To state a broad level of acceptable risk to guide the allocation of the firm's resources

2. Which of the following, if any, are true?

i. Value-at-Risk, VaR, is not a measure of downside risk
ii. Value-at-Risk, VaR, is the minimum loss at a given confidence level over a given period of time
iii. Value-at-Risk, VaR, does not capture catastrophic losses that have a small probability of occurring

A. i only
B. i and ii only
C. i and iii only
D. ii and iii only
E. iii only
F. None of the above

3. Which of the following is NOT considered part of the risk management process?

A. Identify potential risks
B. Evaluate treatment options
C. Implement selected treatment options
D. Monitor the effectiveness of the treatment
E. Prepare reports for stockholders

4. Franklin Industries is a small company that manufactures plastic keys for computer keyboards. They sell the finished keys to other companies around the world who are keyboard assemblers. Frederic Franklin, the newly appointed CRO, is in favor of adopting enterprise risk management at his company. Which of the following reasons support Mr. Franklin's position?

A. ERM is an efficient method for financing all risks
B. ERM will decrease the total cost of insurance
C. ERM requires little extra time and expenses

D. ERM looks at the entire risk spectrum
E. The chief risk officer position is a redundant role

5. As the enterprise risk manager for Huge Hoardings, Inc. Harry Harrington must develop a plan to coordinate all of the organization's risks. Recently the company acquired Smalltown Specialists, Inc., a retailer of a unique product that Huge Hoardings did not previously sell. Smalltown Specialists had a joint venture with Plastic Molders-R-Us to create the product that Smalltown would then sell. Now Harry must analyze these new risks for Huge Hoardings, Inc. This acquisition represents what major category of risk for Hugh Hoardings?

A. Strategic risk
B. Financial risk
C. Operational risk
D. Hazard risk
E. Product liability risk

6. When should a risk be avoided?

A. Risks can never be avoided
B. When the risk event is has a very low probability of occurrence and high impact
C. When you can buy insurance policy
D. When the risk event is has a very high probability of occurrence and high impact

7. Ben Johnson, FRM, serves as a consultant to numerous risk management firms. He is currently advising RST Corporation on the implementation of a risk management program. RST is a newly formed company with little expertise in risk management, and has hired Johnson to train its staff.

A. Scenario analysis is useful for allowing risk managers to assess secondary consequences of changes in risk factors.
B. Scenario analysis is useful for assessing exposure to changes in the correlation between the component securities.
C. Scenario analysis is useful for discovering flaws in the risk measurement model and/or its assumptions.
D. Scenario analysis is useful for assessing exposure to changes in the volatility of the component securities.

8. You are being asked to consider the following statement:

A comprehensive and integrated framework for managing keys risks achieving business objectives, minimizing unexpected earnings volatility and maximizing firm value.

This statement may be described as one that is addressing:

A. Trading Risk Management
B. Enterprise Risk Management

C. Systematic Risk Management
D. Unsystematic Risk Management
E. Volatility Risk Management
F. None of the above

9. If you are told that the daily, 90% confidence level, value at risk of a portfolio is $100,000, then you would anticipate that:

i. 9 out of 10 times, the value of the portfolio will lose more than $100,000.
ii. 1 out of 10 times, we would expect the portfolio to lose $100,000 or less.
iii. 9 out of 10 times, the value of the portfolio will lose less than $100,000.
iv. 1 out of 10 times, we would expect the portfolio to lose $100,000 or more.

A. i only
B. ii only
C. iii only
D. i and ii only
E. iii and iv only
F. iv only

10. 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. Both contracts would have the same maturity and delivery specifications. The manager finds that the futures price is less than the forward price. Assuming no arbitrage opportunity exists, what single factor acting alone would be a realistic explanation for this price difference?

A. The futures contract is more liquid and easier to trade.
B. The forward contract counterparty is more likely to default.
C. The asset is strongly negatively correlated with interest rates.
D. The transaction costs on the futures contract are less than on the forward contract.

Long answers

1. Define Risk management? What are the steps involved in Risk management?

2. What is unexpected loss? How can it magnify because of correlation risk?

3. Amarnath corporations has identified several risks faced in the organisation. They are now identifying the best strategy for managing the risks. List down all the strategies

4. Explain

    1. Legal & regulatory risk
    2. Business risk

5. Explain the concept of Expected loss with an example

6. Which is the most crucial risk in regards to any Investment? Also explain the different sub classifications of that risk

7. As a chief risk officer of a consumer and business the board has asked you to prepare practical list of advantages of hedging risk exposure (do not give the theoretical explanation of MM)

8. Distinguish between expected loss and unexpected loss.

9. As a CRO of a BSE 500 company, you advise your company on implementation of ERM.
Compare the benefits and the costs of ERM and describe motivations for a firm to adopt and ERM initiative.

10. The board of directors are planning to appoint chief risk officer and want you to present to the shareholders the role and the responsibility of the CRO and also how CRO should interact with the senior management.