IAQS | INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: RM&IM

Chapter: Unit 3 & 4

Category: Assignment 2

MCQs

1. Which of the following most accurately reflects a key risk that was realized in the Metallgesellschaft case study?

   A. Eventually interest rate spreads are likely to revert to mean
   B. Value at risk (VaR) is not necessarily reliable without scenario analysis complements
   C. Roll return (roll yield) for a long futures position is negative in contango
   D. A firm which does not choose the theoretical minimum variance hedge is economically speculating

2. The collapse of Long Term Capital Management (LTCM) is a classic risk management case study. Which of the following statements about risk management at LTCM is correct?

   A. LTCM had no active risk reporting.
   B. At LTCM, stress testing became a risk management department exercise that had little influence on the firm's strategy.
   C. LTCM's use of high leverage is evidence of poor risk management.
   D. LTCM failed to account properly for the illiquidity of its largest positions in its risk calculations.

3. In October 1994, General Electric sold Kidder Peabody to Paine Webber, which eventually dismantled the firm. Which of the following led up to the sale?

   A. 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.
   B. Kidder Peabody reported a large quarterly loss from highly leveraged positions, which left the company insolvent and on the verge of bankruptcy.
   C. Kidder Peabody suffered a large loss when counterparties to its CDS portfolio could not honor their contracts, which left the company with little equity.
   D. 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.

4. Which committee was formed to investigate the scam of Harshad Mehta?

   A. Joint committee
   B. Janakiraman committee
   C. Narasimham committee
   D. Malhotra committee

5. What do these incidents have in common: Chase Manhattan Bank/Drysdale Securities, Kidder Peabody, Barings, Allied Irish Bank, and Union Bank of Switzerland (UBS) in 1997-1998?

   A. They are cases in which the firm or its investors and lenders were seriously misled about the size and nature of the positions it had (Disasters due to misleading reporting)

B. They are cases in which the firm and its investors and lenders had reasonable knowledge of its positions, but had losses result from unexpectedly large market moves(Disasters due to large market moves)
C. They are cases in which losses did not result from positions held by the firm, but instead resulted from fiduciary or reputational exposure to positions held by the firm's customers (Disasters due to the conduct of customer business)
D. None of the above

6. The major impact of Lehman Brothers filing for bankruptcy was:
A. an increase in haircuts.
B. a run on commercial paper.
C. a run on money market mutual funds.
D. a reduction in price of nonmortgage-related securities.

7. Which of the following statements best describe the factors linking the Great Depression to the most recent financial crisis?
A. A decrease in equity prices and real GDP growth per capita.
B. An increase in government debt and a decrease in housing prices.
C. A large amount of cash available for investment by institutional investors in the form of cash pools.
D. An increase in overall borrowing, an increase in the supply of credit, and an increase in housing prices.

8. A factor that did not significantly contribute to the housing bubble was:
A. lax interest rate policy.
B. the originate-to-distribute banking model.
C. large capital outflows to foreign countries,
D. financial securitization.

9. Which of the following financial disasters created a situation that resembled a classic Ponzi scheme where artificial profits are shown, but never materialize into actual profits?
A. Drysdale Securities.
B. Bankers Trust.
C. Kidder Peabody.
D. Metallgesellschaft

10. Which of the following governmental policy responses to the financial crisis was most effective in the short term?
A. Liquidity support and recapitalization.

B. Capital injections and debt guarantees.
C. Interest rate cuts and asset repurchases.
D. Liability guarantees and asset repurchases.

Longer questions

1. Case study: Baring bank
List down the risk management problems which resulted into the downfall of barings bank

2. Explain the premise, cause and effect of the 2 cases below
    1. PNB bank
    2. NSEL case

3. Case study: US 2007-09 financial crisis
    1. What triggered the financial crisis in US economy?
    2. Why did the US bank start facing liquidity crunch?
    3. How did the liquidity crunch affect banks credibility? Did it cause bank runs?

4. Explain expected Shortfall? How is it better than VaR?

5. Explain : Kidder Peabody case study
    1. What went wrong
    2. What they could have done differently.

6. How did Ketan Parekh devise the whole scam? Which other institutions helped him?

7. A lot of factors resulted in 2007-09 US crisis. Describe the US economy prior the onset of the crisis.

8. ABC bank are setting up their operations in India. They are concerned about managing their funds.
    1. Which risk is ABC bank most concerned about? Explain in detail the types of this risk?
    2. Using a case study, explain them the importance of Liquidity risk management. (write brief, cause of failure, what could they have done better and outcome of the case used)

9. Assess the consequences of the Lehman failure on the global financial markets.

10. Describe the key factors the led to the housing bubble.