ICBRR Q&As

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QUESTION 1

An options trader is assessing the aggregate risk of her currency options exposures. As an options buyer, she can potentially ___ lose more than the premium originally paid. As an option seller, however, she has a ___ risk on the contract and always receives a premium.

A. Never, unlimited

B. Sometimes, unlimited

C. Never, limited

D. Sometimes, limited

Correct Answer: A

QUESTION 2

Which one of the following four options does NOT represent a benefit of compensating balances to the bank?

A. Compensating balances allow the bank to net some of the exposure they may have in case of default, by taking funds from these specific deposit account one the borrower defaults.

B. Since the compensating balances cannot be withdrawn at short notice, if at all, they are not considered transaction accounts and are able to provide a stable funding to the bank, reducing its reliance on more volatile external inter-bank based funding sources.

C. Compensation balances influence the expected loss rate of the bank given the default obligor and improve capital structure by controlling obligor type and avoiding payment delays.

D. Since the compensating balances reduce the next amount lent to the borrower, the earned return on the loan is increased, further widening the bank\\'s interest rate margin and profitability.

Correct Answer: C

QUESTION 3

Which one of the following four statements does identify correctly the relationship between the value of an option and perceived exchange rate volatility?

A. With increases in perceived future foreign exchange volatility, the value of all foreign exchange

B. As the perceived future foreign exchange volatility decreases, the value of all options increases.

C. As the perceived future foreign exchange volatility increases, the value of all options increases.

D. Option values can only change due to the factors related to the demand for specific options

Correct Answer: C

QUESTION 4

Which of the following statements regarding bonds is correct?

A. Interest rates on bonds are typically stated on an annualized rate.

II. Bonds can pay floating coupons that are directly linked to various interest rate indices.

III. Convertible bonds have an element of prepayment risk.

IV. Callable bonds have an element of equity risk.

B. I only

C. I and II

D. I, II, and III

E. II, III, and IV

Correct Answer: B

QUESTION 5

A customer asks a broker employed by AlphaBank to buy Eureka Corporation bonds for her account. While this trade was executed correctly and the bonds were bought, the trade was mistakenly accounted for as a sell order. If the price of Eureka Corporation bonds goes up, this trade would result in a significantly larger loss than if the market had remained stable. However, if the market drops, the customer will benefit from the incorrect accounting and gain from this trade. This trading scenario can serve as an example that

A. Market risk in this transaction can magnify operational risk.

B. Credit risk in this transaction can magnify operational risk.

C. Liquidity risk in this transaction can magnify operational risk.

D. Strategic risk in this transaction can magnify operational risk.

Correct Answer: A