3I0-008 Q&As

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QUESTION 1

Click on the Detail Button to view the Formula Sheet. Basis risk on a futures contract is:

A. The risk of an adverse change in the futures price

B. The risk of an adverse change in the spread between futures and cash prices

C. The progressive illiquidity of a futures contract as it approaches expiry

D. The risk of a divergence between the futures price and the final fixing of the underlying interest rate

Correct Answer: B

QUESTION 2

Click on the Detail Button to view the Formula Sheet. If you funded a fixed-income investment portfolio with short-term deposits, how would you hedge your interest rate exposure with interest rate swaps?

A. Pay fixed and receive floating through swaps for the term of the portfolio

B. Pay floating and receive fixed through swaps for the term of the portfolio

C. You cannot : the maturity of the swaps would be longer than that of the deposits

D. You should not: there would be too much basis risk

Correct Answer: A

QUESTION 3

Click on the Detail Button to view the Formula Sheet. What is the Gold Offered Forward Rate?

A. The price differential between spot and forward gold prices

B. The rate at which dealers will lend gold against US dollars

C. The implied forward price of gold

D. The price of gold for forward delivery

Correct Answer: B

QUESTION 4

Click on the Detail Button to view the Formula Sheet. You are quoting forward FX prices to a broker subject to finding a counterparty for a matching transaction. The Model Code says:

A. You must tell the broker, who must qualify your quotes.

B. For credit reasons, you must tell the broker when he presents a name.

C. You cannot do this.

D. The Model Code does not make recommendations on this subject.

Correct Answer: A

QUESTION 5

Click on the Detail Button to view the Formula Sheet. A customer gives you GBP 25 million at 6.625% same day for 7 days. Through a broker, you place the funds with a bank for the same period at 6.6875%. Brokerage is charged at 2 basis points per annum. What is the net profit or loss on the deal?

A. Profit of GBP 299.66

B. Profit of GBP 203.77

C. Loss of GBP 299.66

D. Loss of GBP 203.77

Correct Answer: B

QUESTION 6

Click on the Detail Button to view the Formula Sheet. If EUR/USD is quoted to you as 1.1050-53, does this price represent?

A. The number of EUR per USD

B. The number of USD per EUR

C. Depends on whether the price is being quoted in Europe or the US

D. Depends on whether the price is being quoted interbank or to a customer

Correct Answer: B

QUESTION 7

Click on the Detail Button to view the Formula Sheet. Where repos or securities lending transactions are entered into, the Model Code recommends:

A. Documentation should be in place beforehand.

B. Management should approve all transactions.

C. Copies of the underlying documentation should be lodged with regulators.

D. All of the above.

Correct Answer: A

QUESTION 8

Click on the Detail Button to view the Formula Sheet. How many USD would you have to invest at 3.5% to be repaid USD125 million (principal plus interest) in 30 days?

A. USD 124,641,442.43

B. USD 124,636,476.94

C. USD 124,635,416.67

D. USD 123,915,737.30

Correct Answer: B

QUESTION 9

Click on the Detail Button to view the Formula Sheet. Cable is quoted at 1.6075-80 and you say "5 yours!" to the broker. What have you done?

A. Sold USD 5 million at 1.6075

B. Sold GBP 5 million at 1.6075

C. Bought GBP 5 million at 1.6080

D. Bought USD 5 million at 1.6080

Correct Answer: B

QUESTION 10

Click on the Detail Button to view the Formula Sheet. What is an FX swap?

A. An exchange of two streams of interest payments in different currencies and an exchange of the principal amounts of those currencies at maturity

B. A spot sale (purchase) and a forward purchase (sale) of two currencies agreed simultaneously between two parties

C. An exchange of currencies on a date beyond spot and at a price fixed today

D. None of the above

Correct Answer: B

QUESTION 11

Click on the Detail Button to view the Formula Sheet. Where internet trading facilities are established by a bank for a client, the conditions and controls should be stated in a rulebook produced by:

A. The bank.

B. The local bankers association.

C. The local regulator.

D. Negotiation between the bank and client.

Correct Answer: A

QUESTION 12

Click on the Detail Button to view the Formula Sheet.

You are quoted the following market rates:

spot EUR/GBP 0.6670

6M (182-day) EUR 2.35%

6M (182-day) GBP 3.75%

What is 6-month EUR/GBP?

A. 0.6675

B. 0.6715

C. 0.6717

D. 0.6718

Correct Answer: B

QUESTION 13

Click on the Detail Button to view the Formula Sheet. You hear from a client of good standing that a major market participant has taken major losses on its proprietary trading book and is desperate for liquidity. You are not convinced that the story is true, but have a friend at another bank who you know has very large exposures to this firm and would be seriously damaged by a default. What advice does the Model Code give?

A. Unsubstantiated information which you suspect to be inaccurate and which could be damaging to a third party should not be passed on in any circumstances.

B. Unsubstantiated information which you suspect to be inaccurate and which could be damaging to a third party should be discussed only with great care.

C. Unsubstantiated information which you suspect to be inaccurate and which could be damaging to a third party should be reported to the regulator in order to provide warning of possible systemic problems.

D. You have a duty to warn counterparties but should make clear that the information is unsubstantiated.

Correct Answer: B

QUESTION 14

Click on the Detail Button to view the Formula Sheet. What is the effect of netting?

A. To reduce the number and size of payments and transfers

B. To reduce exposure to credit risk

C. To reduce the size of the balance sheet

D. All of the above

Correct Answer: D

QUESTION 15

Click on the Detail Button to view the Formula Sheet. What is the buyers primary risk in a repo?

A. The credit risk on the collateral

B. The credit risk on the repo counterparty

C. The legal risk on the contract

D. The operational risk on margin maintenance

Correct Answer: B