

Updated Jun 16, 2022 Verified Pass 2016-FRR Exam in First Attempt Guaranteed [Q34-Q48]



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What is the Passing Score, Duration & No. of queries for the GARP 2016-FRR: - Format of 2016-FRR: All multiple choice- Number of Questions: 80- Language: English- Duration: 175 minutes- Passing score: 54/80 (67.5%) **QUESTION 34**

Which one of the following four variables of the Black-Scholes model is typically NOT known at a point in time?

- * The underlying relevant exchange rates
- * The underlying interest rates
- * The future volatility of the exchange rates
- * The time to maturity

QUESTION 35

Which one of the following four statements about planning for the operational risk framework is

INCORRECT?

- * Planning for the operational risk framework involves setting clear goals, realistic milestones and achievable deliverables that add value.
- * An operational risk framework is a complex and evolving challenge, and to keep its development under control it is important to apply strong project management skills to the design and implementation of each new element.
- * Planning for the operational risk framework suggests that short-term planning and focus on immediate benefits is strongly preferred to the long-term planning approach.
- * Once the elements of an operational risk framework are up and running, they need to be monitored to ensure they maintain their integrity and do not deteriorate over time.

QUESTION 36

The skewness of ABC company's stock returns equal -1.5. What is the correct interpretation of this?

- * It indicates higher relative probability of negative returns compared to estimates derived from a normal distribution.
- * It indicates that the returns are indeed normally distributed.
- * It indicates lower probability of extreme negative events compared to the normal distribution.
- * It indicates higher relative probability of extreme events than non-extreme events compared to estimates from a normal distribution.

QUESTION 37

Bank Milo has \$4 million in cash and \$5 million in loans coming due tomorrow with an expected default rate of 1%. The proceeds will be deposited overnight. The bank owes \$9 million on a securities purchase that settles in two days and pays off \$8 million in commercial paper in three days that is not expected to renew. On

what days does the bank face negative cumulative liquidity?

- * Day 3 only.
- * Days 2 and 3.
- * Day 2 only.
- * Days 1, 2 and 3.

QUESTION 38

Which one of the four following statements about technology systems for managing operational risk event data is incorrect?

- * Operational risk event databases are always integrated with the other components of the operational risk management program.
- * Operational risk loss event data collection software can be internally developed.
- * Operational risk event databases are independent elements of the operational risk management framework.
- * The implementation of a new operational risk event loss database has to incorporate an analysis of the advantages and disadvantages of external systems.

QUESTION 39

Bank Sigma takes a long position in the oil futures market that requires a 2% margin, i.e., the bank has to deposit 2% of the value of the contract with the broker. The futures contracts were priced at \$50 per barrel (bb) at inception, and rose by \$5 to \$55. The VaR on the position is estimated to be \$10. What is the return on this transaction on a risk adjusted basis?

- * 50%
- * 10%
- * 500%
- * 20%

QUESTION 40

What is the order in which creditors and shareholders get repaid in the event of a bank liquidation?

- * Depositors, shareholders, debt holders.
- * Debt holders, depositors, shareholders.
- * Depositors, debt holders, shareholders.
- * Depositors, shareholders, depositors.

QUESTION 41

Which one of the following four statements correctly describes an American call option?

- * An American call option gives the buyer of that call option the right to buy the underlying instrument on

any date up to and including the expiry date.

* An American call option gives the buyer of that call option the right to sell the underlying instrument on

any date up to and including the expiry date.

* An American call option gives the buyer of that call option the right to buy the underlying instrument on

the expiry date.

* An American call option gives the buyer of that call option the right to sell the underlying instrument on

the expiry date.

QUESTION 42

Gamma Bank provides a \$100,000 loan to Big Bath retail stores at 5% interest rate (paid annually). The loan is

collateralized with \$55,000. The loan also has an annual expected default rate of 2%, and loss given default at

50%. In this case, what will the bank's expected loss be?

- * \$500
- * \$750
- * \$1,000
- * \$1,300

QUESTION 43

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% change of default on a one-year

no-payment of USD \$1 million, including interest and principal repayment. The bank charges 3% interest rate

spread to firms in the machinery industry, and the risk-free interest rate is 6%. Alpha Bank receives both

interest and principal payments once at the end the year. Delta can only default at the end of the year. If Delta

defaults, the bank expects to lose 50% of its promised payment. Hence, the loss rate in this case will be

- * 1%
- * 3%
- * 5%
- * 10%

QUESTION 44

James Johnson bought a 3-year plain vanilla bond that has yield of 4.7% and 4% coupon paid annually, for

\$87,139. Macauley's duration of the bond is 2.94 years. Rate volatility is 20% of the yield. The bond's

annualized volatility is therefore:

- * 3.15%.
- * 2.90%.
- * 2.81%.
- * 2.64%.

QUESTION 45

Asset and liability management is typically concerned with all of the following activities:

- I. Maintaining the desired liquidity structure of the bank.
 - II. Managing the factors affecting the structure and composition of a bank's balance sheet.
 - III. Effectively transferring the interest rate risk in the banking book to the investment bank at a fair transfer price.
 - IV. Focusing on the circumstances impacting the stability of income the bank generates over time.
- * I
 - * II, III
 - * III, IV
 - * I, II, IV

QUESTION 46

Which one of the following areas does not typically report into a central operational risk function?

- * Business continuity planning
- * Information security
- * Geopolitical and strategic planning
- * Embedded operational risk coordinators or specialists or managers

QUESTION 47

Mega Bank holds a \$250 million mortgage loan portfolio, which reprices every 5 years at LIBOR + 10%. The bank also has \$150 million in deposits that reprices every month at LIBOR + 3%. What is the amount of Mega

Bank's rate sensitive assets?

- * \$100 million
- * \$150 million
- * \$200 million
- * \$250 million

QUESTION 48

An options trader for a large institutional investor takes a long equity option position. Which of the following risks need to be considered when taking this position?

- I. All the risks of underlying equities
- II. Perceived volatility changes
- III. Future dividends yields

IV. Risk-free interest rates

- * I, II
- * II, III
- * III, IV
- * I, II, III, IV

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