Topic 62 to 66

Test ID: 8451163

Question #1 of 32

Question ID: 439571

Unexpected loss is best characterized as:

A) variance of unanticipated loss.

B) standard deviation of unanticipated loss.

C) standard deviation of expected loss.

D) variance of expected loss.

Question #2 of 32

Question ID: 439538

There are many possible variables and measures to consider when assessing country risk. One variable measures a country's degree of economic openness and monetary stability. Which of the following best describes this variable?

A) Economic environment.

B) Trade and investment climate.

C) Legal risks.

D) Financial considerations.

Question #3 of 32

Question ID: 439556

For a given loan portfolio, which of the following will unambiguously increase expected loss?

A) Decrease recovery rate and decrease probability of default.

B) Increase recovery rate and decrease probability of default.

C) Decrease recovery rate and increase probability of default.

D) Increase recovery rate and increase probability of default.

Question #4 of 32

Question ID: 439585

Which of the following *best* describes the relationship between loan losses and economic capital?

A) Unexpected loss typically exceeds economic capital.

B) Expected loss typically exceeds economic capital.

C) Economic capital typically equals expected loss.

D) Economic capital typically exceeds unexpected loss.

Question #5 of 32

Question ID: 439577

Decreasing the recovery rate will do which of the following to unexpected loss?

A) Recovery rate does not influence UL.

B) Increase UL.

C) No change.

D) Decrease UL.

Question #6 of 32

Question ID: 439548

Which of the following internal rating credit systems is more likely to be procyclical (i.e., tend to amplify the business cycle)?

I. At-the-point approach.
II. Through-the-cycle approach.

A) Neither I nor II.

B) I and II.

C) II only.

D) I only.

Question #7 of 32

Question ID: 439588

Which of the following is NOT a reason to accumulate loss data?

A) Past losses are almost always repeated in the future.

B) It focuses management attention on the magnitude and effect of risk.

C) It contributes to the understanding of future expected losses.

D) It provides data necessary for empirical analysis.

Question #8 of 32

Question ID: 439540

Historically, the relationship for external ratings in predicting default has been:

A) opposite to what the ratings would indicate and significant.

B) non-existent.

C) fairly good in that poorly rated firms do have higher default rates.

D) opposite to what the ratings would indicate but not significant.

Question #9 of 32

Question ID: 439553

Which of the following formulas defines Expected Loss?

A) Exposure × (1 − Recovery rate) × Probability of default.

B) Exposure × Loss given default × (1 − Probability of default).

C) Exposure × (1 − Loss given default) × (1 − Probability of default).

D) Exposure × Recovery rate × Probability of default.

Question #10 of 32

Question ID: 439550

Which of the following internal rating credit systems develop ratings for long time horizons (more than one year)?

I. At-the-point approach.
II. Through-the-cycle approach.

A) I and II.

B) I only.

C) Neither I nor II.

D) II only.

Question #11 of 32

Question ID: 439542

Which of the following statements *best* characterizes the change in a bond rating and the price of the firm's stock?

A) Bond downgrades and upgrades are equally ambiguous in their effects.

B) A bond downgrade produces little or no movement in the stock price, and an upgrade produces an upward movement.

C) A bond downgrade produces an upward movement in the stock price, and an upgrade produces a downward movement.

D) A bond downgrade produces a downward movement in the stock price, and an upgrade produces little or no movement.

Question #12 of 32

Question ID: 439563

Unexpected loss is defined as the risk of:

A) expected losses matching actual losses.

B) actual losses minimizing expected losses.

C) actual losses exceeding expected losses.

D) expected losses exceeding actual losses.

Question #13 of 32

Question ID: 439539

There are many alternative measures and indices that can be used to supplement more common measures in assessing country risk. Which of the following indicators measures social inequality in terms of income and wealth using a scale of 0 to 1 (0 being total equality and 1 being total inequality)?

A) Human Development Index.

B) Democracy Coefficient.

C) Gini Coefficient.

D) Corruption Perception Index.

Question #14 of 32

Question ID: 439560

Identify the effect of increasing LGD on expected loss.

A) Decrease.

B) LGD is not a component of expected loss.

C) Increase.

D) No effect.

Question #15 of 32

Question ID: 439536

Which of the following statements is least likely a guideline for effective country risk analysis?

A) Analysts should rely on experience and observation in addition to data about the country.

B) Analysts should question government and other official statistics.

C) Country risk management tools should always be logical.

D) Qualitative analysis can be more useful than quantitative analysis in country risk assessments.

Question #16 of 32

Question ID: 439546

Internal ratings by banks tend to:

A) lag behind the economic cycle.

B) coincide with the economic cycle.

C) be unrelated to the economic cycle.

D) predict the economic cycle.

Question #17 of 32

Question ID: 439576

If the adjusted exposure for Bank X is $15 million, the probability of default is 2%, the recovery rate is 20%, and the standard deviation of EDF and LGD is 5% and 3%, respectively. What is the unexpected loss for Bank X?

A) $603,366.

B) $24,270.

C) $302,242.

D) $240,000.

Question #18 of 32

Question ID: 439545

Which of the following statements is **TRUE**?

A) Technical default usually refers to the issuer's failure to make interest or principal payments as scheduled in the indenture.

B) Bond ratings are determined by the market.

C) Default risk is important because if a bond issuer defaults, the bondholder likely loses his entire investment.

D) When a rating agency downgrades a security, the bond's price usually falls.

Question #19 of 32

Question ID: 439587

In modeling risk frequency, it is common to:

A) assume that risks are highly correlated.

B) use straight-line projection from the most recent loss data.

C) use a Poisson distribution.

D) assume risk frequency and severity are the same.

Question #20 of 32

Question ID: 439590

Which of the following is FALSE regarding the use of scorecard data?

A) It usually results in higher capital charges than the use of historical data.

B) It is more subjective because it relies upon the judgment of business line managers.

C) It is forward looking rather than backward looking.

D) It more accurately captures the future benefits of risk management activities.

Question #21 of 32

Question ID: 439547

In comparing the horizons of through-the-cycle and at-the-point approaches of rating bonds:

A) at-the-point approaches have longer horizons.

B) through-the-cycle approaches have longer horizons.

C) there is no set relationship.

D) the horizons are equal.

Question #22 of 32

Question ID: 439541

Under the Moody's bond rating system, the threshold for non-investment grade debt is reached when a bond's rating falls from:

A) Caa to D.

B) Ba to B.

C) A to Baa.

D) Baa to Ba.

Question #23 of 32

Question ID: 439554

Given the following information, compute the loss given default and recovery rate.

- Expected loss = $200,000.
- Exposure = $5,000,000.
- Probability of loss = 5%.

	Loss given default	Recovery rate
A)	0.02	0.08
B)	0.80	0.20
C)	0.08	0.02
D)	0.20	0.80

Question #24 of 32

Question ID: 439544

The effect of ratings changes is:

A) not significant for either bond or stock prices.

B) more significant for stock prices than it is for bond prices.

C) more significant for bond prices than it is for stock prices.

D) equally significant for both bond and stock prices.

Question #25 of 32

Question ID: 439586

The type of capital used to buffer a bank from unexpected losses is known as:

A) economical capital.

B) regulatory capital.

C) risk-adjusted capital.

D) unexpected capital.

Question #26 of 32

Question ID: 439537

Ratings agencies are often used to analyze a country's political debt and political risk. Which of the following statements best describes the use of these ratings?

A) Because of previous rating agency failures, ratings have little impact on a country's access to capital.

B) Ratings are rarely influenced by politics.

C) Ratings should be the primary source for analyst's decision-making.

D) Ratings may not be useful in predicting a country's ability to pay 10 years in the future.

Question #27 of 32

Question ID: 439589

One of the basic requirements of a risk control process that a risk and control self-assessment program (RCSA) fails in is the:

A) identification of expected losses.

B) independent verification of risk identification and measurement.

C) expert opinion of managers.

D) ongoing assessment of the effectiveness of risk management activities.

Question #28 of 32

Question ID: 439543

Six months ago an investor purchased a bond that was rated BB. Today the bond is upgraded to a BBB rating. The *most likely* effect of this upgrade is:

A) a higher spot price.

B) increased liquidity risk.

C) an increase in yield to maturity.

D) increased call risk.

Question #29 of 32

Question ID: 439591

Scorecards are developed from:

A) historical loss data.

B) surveys of the managers of the various business lines.

C) industry standards and guidelines.

D) random draws from external loss databases.

Question #30 of 32

Question ID: 439558

If the adjusted exposure for Bank X is $15 million, the probability of default is 2%, and the recovery rate is 20%, what is the expected loss for Bank X?

A) $60,000.

B) $240,000.

C) $3,000,000.

D) $300,000.

Question #31 of 32

Question ID: 439549

At-the-point approaches tend to be:

A) neither counter- nor procyclical because they change randomly.

B) countercyclical.

C) procycyclical.

D) neither counter- nor procyclical because they rarely change.

Question #32 of 32

Question ID: 439557

For a given loan portfolio, which of the following will NOT increase expected loss?

A) Decrease recovery rate and increase probability of default.

B) Increase recovery rate and increase probability of default.

C) Increase recovery rate and decrease probability of default.

D) Decrease recovery rate and decrease probability of default.