

Liquidity and Treasury Risk Measurement and Management - Questions

Question 1

You are holding 100 SkyTrek Company shares with a current price of \$30. By considering the mean and standard deviation of the stock, you compute its value at risk (VaR) as \$150. You also note that the bid-ask spread of the stock varies over time, and the daily mean and volatility of this spread are 0.5% and 1%, respectively. Both the return and the spread are normally distributed. What is the daily liquidity-adjusted VaR (LVaR) under a stressed market scenario, assuming the confidence parameter of the spread is equal to 3?

- A) \$103.50.
- B) \$172.62.
- C) \$193.15.
- D) \$202.50.

Question 2

Global Transportation, Inc., recently traded at an ask price of \$45 and a bid price of \$44.50. The sample standard deviation of the bid-ask spread was 0.0001. The 99% spread risk factor for a purchase of Global Transportation is closest to:

- A) 0.0057.
- B) 0.2541.
- C) 25.41.
- D) 0.1111.

Question 3

The following dealer banks have financed significant fractions of their assets using repo agreements. The following table shows the quarter-end financing of four broker-dealer financial instruments. All values are in USD billions.

	Bank A	Bank B	Bank C	Bank D
Financial instruments owned	648	832	525	751
Pledged as collateral	326	386	249	372

Which bank is least vulnerable to a liquidity crisis?

- A) Bank A.
- B) Bank B.
- C) Bank C.
- D) Bank D.

Question 4

Surveys of banks after the Global Financial Crisis (GFC) of 2007–2009 revealed several challenges related to the implementation of liquidity management information systems. Which of the following statements identifies the biggest problem that arose in liquidity transfer pricing (LTP) during the financial crisis?

- A) High levels of default on short-term liabilities.
- B) Reliance on short-term funding for long-term illiquid assets.
- C) Senior management monitoring LTP on a monthly basis.
- D) Centralized treasury centers, which were responsible for all wholesale funding.

Question 5

As the U.S. dollar funding shortage became more acute during the financial crisis of 2007–2009, the international policy response primarily relied on:

- A) unsecured U.S. dollar loans from the U.S. Federal Reserve to central banks globally.
- B) the U.S. Federal Reserve providing loans to commercial banks through U.S. dollar auctions.
- C) uncollateralized U.S. dollar swap lines between the U.S. Federal Reserve and central banks globally.
- D) U.S. dollar swap lines between the U.S. Federal Reserve and central banks globally, collateralized by foreign currencies.

Question 6

An asset-liability committee (ALCO) member at South Bank, based on recent announcements by the Federal Reserve, is expecting declining short-term interest rates in the next quarter to six months. The bank has a positive interest sensitive gap over the 3-month and 6-month horizons. The main risk to the bank's net interest income and net interest margin is most likely:

- A) gap risk.
- B) price risk.
- C) market risk.
- D) reinvestment risk.