

# **FRM Part II Exam**

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Questions - Current Issues in Financial Markets

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## **Reading 166: Digital Resilience and Financial Stability. The Quest for Policy Tools in The Financial Sector**

Q.5757 Which of the following is correct regarding cyber and ICT risk events in relation to systemic financial risk?

- A. They primarily result in physical damage to the institution's infrastructure, leading to financial losses.
  - B. They can undermine public confidence in the financial system, leading to panic and potential bank runs or market sell-offs.
  - C. They are mainly concerned with the personal data breaches of individual customers, without broader systemic implications.
  - D. They primarily cause a temporary decrease in the stock market value of the affected institution.
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Q.5758 In the context of financial institutions, what is a key factor that amplifies the systemic risk associated with cyber and ICT risks?

- A. Increased investment in innovative financial products
  - B. Reliance on physical currency and traditional banking methods
  - C. Dependency on interconnected digital platforms and services
  - D. Shift towards more regulated financial environments
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Q.5759 What aspect of a financial institution's operations makes it particularly vulnerable to systemic risks arising from cyber and ICT incidents?

- A. The routine use of manual processes in daily operations.
  - B. High dependency on global supply chains for physical assets.
  - C. Extensive use of customer service centers for client interactions.
  - D. Integration with and reliance on real-time electronic payment systems.
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Q.5764 FinTechCo, a prominent financial technology company, has recently integrated its advanced cloud-based payment system with several major banks worldwide. This system offers faster transaction processing and enhanced data analytics capabilities. However, a critical vulnerability in FinTechCo's system is exploited by cyber attackers, leading to a temporary shutdown of its services. Considering this scenario, what is a likely systemic risk consequence of the cyber attack on FinTechCo's cloud-based payment system?

- A. An immediate surge in FinTechCo's research and development spending to enhance cybersecurity measures.
  - B. Interruption in transaction processing at major banks, leading to a temporary freeze in global financial transactions.
  - C. A significant long-term shift in consumer behavior towards non-digital financial transactions across the affected regions.
  - D. A temporary decline in FinTechCo's market share in the financial technology sector.
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Q.5765 Which of the following correctly describes cyber risk in the context of financial institutions?

- A. The potential for reduced operational efficiency due to outdated technology and systems.
  - B. The likelihood of encountering legal disputes related to breaches of online banking regulations.
  - C. The risk associated with unauthorized access or attacks on digital systems, compromising data security and integrity.
  - D. The financial risk stemming from failed IT projects or investments in technology that do not yield the expected returns.
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Q.5768 What's the main challenge in adopting cooperative arrangements as a macroprudential tool to address cyber and ICT risks in the financial sector?

- A. Developing advanced technological solutions for shared cybersecurity platforms.
- B. Aligning diverse interests and ensuring equitable contributions among competitive financial institutions.
- C. Coordinating global response strategies across different regulatory jurisdictions.
- D. Obtaining sufficient funding for establishing and maintaining cooperative cybersecurity initiatives.

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Q.5769 Which one of the following is the most significant challenge in extending macroprudential regulatory oversight to systemic technology providers, such as cloud service providers, in the financial sector.

- A. Ensuring uninterrupted service delivery during regulatory compliance checks.
  - B. Balancing the need for stringent regulation with fostering technological innovation and growth.
  - C. Training financial professionals to adapt to new technology-driven regulatory environments.
  - D. Integrating cloud services seamlessly with existing financial regulatory frameworks.
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## **Reading 186: Monetary and fiscal policy: safeguarding stability and trust**

Q.6398 A country experiences a sudden surge in inflation due to external supply chain disruptions. The government responds with increased spending on infrastructure projects to stimulate economic activity. This combination of policies is *most likely* to:

- A. Strengthen the "region of stability" by aligning fiscal and monetary policy.
  - B. Create tension between fiscal and monetary policy.
  - C. Have no significant impact on inflation as the source is external.
  - D. Primarily affect long-term economic growth without impacting short-term stability.
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Q.6399 Understanding the functions of fiscal and monetary policy is crucial to analyzing how these mechanisms influence economic activity and shape financial markets. In your assessment, how do fiscal and monetary policies operate through different channels?

- A. Fiscal policy drives short-term interest rates, while monetary policy solely influences tax structures.
  - B. Fiscal policy affects economic activity via government spending and taxes, while monetary policy impacts through interest rate adjustments.
  - C. Fiscal and monetary policies independently operate on fiscal spending and open market operations.
  - D. Monetary policy controls employment rates and external trade flows, whereas fiscal policy primarily adjusts currency valuations.
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Q.6400 Defining the "region of stability" is vital when assessing fiscal and monetary policy dynamics in promoting macroeconomic balance. What factors define this region of stability in terms of their joint operation?

- A. Strict adherence to low debt levels and constant interest rate policies.
  - B. A volatile mix of expansionary fiscal policy and restrictive monetary regulations.
  - C. Harmonized fiscal expansion and accommodative monetary policy.
  - D. Fiscal austerity coupled with tight monetary policies safeguarding against inflation.
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Q.6401 Following a period of economic recession, a country's central bank implements quantitative easing (QE) while the government pursues expansionary fiscal policy. According to the provided material, this combination of policies is *most likely* to:

- A. Move the economy outside the "region of stability."
  - B. Lead to deflationary pressures.
  - C. Primarily affect exchange rates.
  - D. Support economic recovery and promote growth
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Q.6402 A country has accumulated a high level of public debt. The central bank is considering raising interest rates to combat rising inflation. A potential consequence of this action is most likely:

- A. Reduced government debt servicing costs.
  - B. Increased pressure on fiscal policy.
  - C. Increased fiscal space for future government spending.
  - D. Decreased risk of fiscal dominance over monetary policy.
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Q.6403 An emerging market economy (EME) operates under a fixed exchange rate regime relative to the currency of a major advanced economy. The advanced economy increases its policy interest rate, raising yields on its financial assets. Given the capital flow pressures and the EME's limited monetary policy independence under a fixed exchange rate, which of the following outcomes is most likely for the EME?

- A. Capital outflows from the EME, putting downward pressure on its currency.
  - B. Reduced pressure on the EME to adjust its domestic interest rates.
  - C. An increase in the EME's monetary policy autonomy.
  - D. A strengthening of the EME's currency due to higher foreign investor demand.
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Q.6405 Country Y, with significant public debt, is experiencing rising inflation and rapid credit growth. The central bank decides to raise interest rates. Which of the following is a potential tension that could arise from this monetary policy tightening?

- A. Higher government debt servicing costs.
  - B. Reduced business investment due to higher borrowing costs.
  - C. Decline in asset values held by financial institutions.
  - D. Fiscal policy offsetting monetary tightening.
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Q.6406 Which of the following correctly describes the concept of fiscal dominance?

- A. The central bank independently sets interest rates and mandates specific tax policies to achieve its inflation targets.
  - B. The government's need to finance its spending leads the central bank to maintain low interest rates, even if it risks higher inflation.
  - C. Fiscal and monetary authorities agree on a combined policy approach, with each side having veto power over the other's decisions.
  - D. Market pressures dictate both government spending and central bank interest rate decisions, limiting the discretion of both authorities.
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Q.6407 Suppose an emerging market economy (EME) carries a substantial portion of its public debt in a foreign currency. What key vulnerability does this create?

- A. Increased exposure to exchange rate fluctuations.
  - B. Limited access to international capital markets if investor confidence declines.
  - C. Increased reliance on foreign central banks for monetary policy guidance.
  - D. Difficulty in implementing countercyclical fiscal policy due to exchange rate concerns.
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Q.6408 Following a prolonged period of economic instability, central banks in advanced economies (AEs) face new constraints on their ability to conduct monetary policy effectively. While policymakers once relied on traditional rate adjustments to stabilize financial conditions, recent structural and macroeconomic developments have introduced challenges that limit their flexibility. Given the evolving constraints on monetary policy in AEs, which of the following factors most fundamentally restricts the central bank's ability to provide further monetary easing during economic downturns?

- A. Zero lower bound and debt overhang.
  - B. Erosion of monetary policy credibility.
  - C. Weaker transmission mechanism.
  - D. Global inflationary spillovers.
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Q.6409 The consequences of breaching the "region of stability" have evolved over time. In advanced economies (AEs), what has become a more prominent constraint on monetary policy following periods of instability?

- A. Zero lower bound and debt overhang limiting rate cuts.
  - B. Increased pressure for international policy coordination.
  - C. Tighter monetary policy due to balancing inflation and growth with high debt.
  - D. Focus on managing financial stability risks.
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Q.6410 Following a breach of the "region of stability," both advanced economies (AEs) and emerging market economies (EMEs) undertake policy adjustments. What is a common policy adjustment specifically observed in EMEs seeking to regain economic control after such a breach?

- A. Strict capital controls or exchange rate management.
  - B. Fiscal consolidation through austerity measures.
  - C. Relying on monetary policy tightening to combat inflation.
  - D. Large-scale quantitative easing programs.
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Q.6411 The term "sovereign-bank nexus" is frequently used in discussions of financial stability. What does this term describe?

- A. The impact of government fiscal policy on bank lending and credit creation.
  - B. The interconnectedness between banks and government debt, specifically where banks hold substantial amounts of government securities.
  - C. The influence of monetary policy on government borrowing costs and debt sustainability.
  - D. The regulatory capital requirements imposed on banks based on their holdings of government bonds.
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Q.6412 Which of the following statements regarding the evolution of consequences when breaching the "region of stability" is correct?

- A. Emerging market economies (EMEs) have historically been less susceptible to sudden capital outflows compared to advanced economies (AEs).
  - B. Advanced economies (AEs) typically experience rapid currency depreciations as a primary consequence of breaching the "region of stability."
  - C. Emerging market economies (EMEs) have become more integrated into global financial markets, making them more sensitive to global financial conditions.
  - D. Both AEs and EMEs primarily experience similar consequences, mainly characterized by persistent deflation and declining asset prices.
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Q.6413 Which of the following scenarios best illustrates the potential for "fiscal dominance"?

- A. The central bank raises interest rates to combat rising inflation, even though this increases the government's debt servicing costs.
  - B. The government cuts taxes and increases spending, and the central bank maintains low interest rates to keep borrowing costs down, despite rising inflation.
  - C. The central bank and the government agree on a coordinated policy mix, with the central bank focusing on price stability and the government focusing on full employment.
  - D. The economy experiences a sharp recession, and both the government and the central bank implement expansionary policies to stimulate demand.
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