FRM Part II Exam

Mock Questions - FRM Part II - Mock Exam #1

Offered by AnalystPrep

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Q.1 You are assigned to calculate the daily VaR for the stock of Fooda Inc. You are provided with the following data for the ten worst returns of the stock during the last 100 days: -1.2% -0.7% -3.2% -2.6% -2.4% -2.0% -1.9% -1.7% -1.5% -1.5% Which of the following is closest to the monthly VaR for Fooda Inc. using a confidence level of 95%? (Assume there are 20 trading days in a month.)

A. -7.6%

B. -3.2%

C. -1.2%

D.-1.4%

Q.2 An analyst has gathered the following information about a portfolio which has normally distributed geometric returns:

Mean	12%
Standard deviation	32%
Portfolio value	85 million

What is the 95% lognormal VaR for this portfolio?

A. $33.40 million

B. $27.20 million

C. $56.61 million

D.$28.39 million

Q.3 Since it was founded ten years ago, Bright Technologies pays no dividends to shareholders and is financed with 100% equity. Recently, management decided to have the firm leveraged and issued a zero-coupon bond with a principal amount of $100 million maturing in exactly three years. If the value of the firm at maturity is $80 million, determine the values of the different components of the firm’s capital structure at the maturity date of the bond.

A. Value of equity = $0; value of debt = $80 million

B. Value of equity = $20 million; value of debt = $80

C. Value of equity = $180 million; value of debt = $100 million

D.Value of equity = $20 million; value of debt = $0

Q.4 In a recent transaction, Northern Star Bank (NSB) and Horizon Financial Group (HFG) entered into a 4-year interest rate swap. NSB agreed to pay HFG a fixed rate of 4.5% in exchange for 6-month SOFR plus a spread. Since the inception of the swap, both entities have experienced an improvement in their credit ratings. As a result, the credit spread for NSB has decreased from 90 bps to 40 bps, and the credit spread for HFG has decreased from 130 bps to 100 bps. Assuming the SOFR curve remains unchanged, which of the following statements is most likely to be correct if an identical 4-year swap was initiated today?

A. Since NSB's spread decreased more than HFG's spread, NSB's DVA will decrease and HFG's DVA will increase.

B. Since NSB's spread decreased more than HFG's spread, NSB's CVA will decrease and HFG's CVA will increase.

C. Since both entities' spreads decreased, the DVA and CVA on both sides of the contract will be lower.

D.Since both entities' spreads decreased, the DVA and CVA on both sides of the contract will be higher.

Q.5 A portfolio consists of two assets – A and B.

	Value	Return	99% 1 day VaR	Correlation
A	5 million	5%	0.58 million	
B	10 million	6%	1.86 million	0.7

The portfolio manager decides to rebalance the portfolio so that both the assets are equally weighted. If there is no change in the volatility of the two assets, what will be the effect of this rebalancing on the portfolio VaR?

A. 0.40 million

B. 0.17 million

C. 0.87 million

D.0.20 million

Q.6 When deriving PITs, a financial analyst finds varying degrees of distribution alignment amid real-world conditions. What must be achieved for PIT uniformity, thereby validating the model's predictions effortlessly?

A. Achieve a skewed distribution with evident kurtosis boundaries.

B. Reach cross-sectional stability through diverse market metrics.

C. Ensure that transformed PIT results plot evenly over [0,1].

D.Drive consistency in parameter inputs at all risk thresholds.

Q.7 A hedge fund has the following credit risk exposures to AB&B, an A-rated corporation:

Contract	Contract value (USD)
A	44,000,000
B	88,000,000
C	35,200,000
D	3,300,000
E	20,000,000

The fund is looking into ways of reducing counterparty credit risk. Which of the following credit risk mitigation techniques would be most appropriate?

A. Implementing a netting framework

B. Increasing collateral

C. Use of credit triggers

D.Sell credit default swaps

Q.8 Alliance Derivatives Group (ADG) is refining its risk management approach by considering the impact of netting on its portfolio's CVA computation. As part of this initiative, ADG is evaluating whether to include incremental CVA or marginal CVA in their calculation process. In which situation would it be most appropriate for ADG to utilize incremental CVA?

A. When assessing the credit risk contribution of multiple trades executed with the same counterparty during a particular period, aiming to reduce the computational burden.

B. When ADG needs to allocate CVA to transaction-level contributions at a particular point in time, such as for accounting purposes, or for decisions on trade restructuring, novation, or unwinding.

C. In trade portfolio management, where ADG must constantly monitor and adjust its strategy based on the changing market value and risk profile of the derivatives.

D.For risk analytical purposes, where ADG is interested in examining the sensitivity of the portfolio CVA to systemic factors, independent of timing or the ordering of transactions.

Q.9 Given the following data about a variable S:

S_t	50
S_{t-1}	30
Mean reversion rate	0.4

Calculate the long-run mean value for the variable.

A. 60

B. 80

C. 100

D.75
