

# **FRM Part I Exam**

Mock Questions - FRM Part I - Mock Exam #1

Offered by AnalystPrep

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Q.1 Fatima Dow, a derivatives trader at HEC Hedge Fund, entered into a March silver futures contract on the New York Mercantile Exchange (NYMEX) to purchase 5,000 troy ounces of silver at the futures price of USD 16.96 per ounce. According to NYMEX rules, an initial margin of USD 6,400 and a maintenance margin of USD 3,000 is required to enter and retain the futures position.

If the price of silver futures contracts dropped to USD 16.92, USD 16.90, and USD 16.73, at the end of the first, second, and third day, respectively, then what is the margin account balance at the end of the second day?

- A. USD 5,750
  - B. USD 1,850
  - C. USD 6,100
  - D. USD 2,700
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Q.2 An exotic option where the payoff of the option is not based on the price of the underlying at the end of the contract, but on the arithmetic average of the prices during the life of the option is most likely called a/an:

- A. Gap option
  - B. Lookback option
  - C. Asian option
  - D. Compound option
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Q.3 Which of the following cases includes a violation of GARP's rules of conduct?

A. Frank Benton - a risk manager and participant in the FRM program - oversees all investments in the healthcare startups for an investment bank. After thorough analysis and evaluating all necessary disclosures, Benton approves a significant loan facility to LLL Medicine (a young startup initiated by Frank's brother).

B. Andrea Jenkins, FRM, is a rising star at Trust Hedge Fund. Behind Jenkins' success is her ability to fully concentrate on investment analysis since all other concerns - like the evaluation of an investment's suitability based on funds' internal rules, verification of compliance with laws, etc. - are handled by a third-party accounting firm.

C. On a quarterly basis, Lisa Stone, a bank manager, presents to the board of directors a summary of the key ratios used to identify the credit quality of existing borrowers with large exposures. The analysis is based on quarterly reports published by clients. In addition, she always includes one slide with her own opinion on changes in ratios presented in case of adverse market movements. The slide has a footnote clarifying that the presented information is based on Stone's estimations.

D. Jack Merton, who recently passed part one of the FRM exam, was reviewing his analysis on interest rate risk presented to the ALCO committee of Warsaw Bank last week. He noticed a major mistake and immediately informed all parties involved in this mistake.

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Q.4 Enterprise-wide VaR is not likely to account for all types of risk. In particular, enterprise-wide VaR may not factor in:

A. Credit risk

B. Market risk

C. Funding liquidity risk

D. None of the above. Enterprise-wide risk is likely to account for all types of risk.

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Q.5 A regional bank recently invested in a new bond-pricing software. To test it, the risk management team priced a bond at 3 different rates. The results are presented below:

Interest Rate	Price of Bond
2.13%	USD 100.115
2.15%	USD 99.100
2.17%	USD 98.250

What is the estimate of the bond's convexity?

- A. 104.06
- B. 416.25
- C. 10,406.15
- D. 41,624.62

Q.6 An analyst believes that future 15-year real earnings of the S&P 500 are a function of the trailing dividend payout ratio of the stocks in the index (DB) and the yield curve slope (YC). She collects data and obtains the following multiple regression results:

	Coefficient	Standard error
Intercept	-15.2%	3.589%
DB	0.37	0.099
YC	0.18	0.133

If the number of observations is assumed to be 1003, test the statistical significance of the independent variable DB at the 1% level of significance, quoting the value of the test statistic and the conclusion. If needed, refer to the t-table by clicking the link below: [t-distribution-table](#)

- A. Test statistic = 0.2676; The DB regression coefficient is statistically different from zero
- B. Test statistic = 3.7373; The DB regression coefficient is statistically different from zero
- C. Test statistic = 0.2676; The DB regression coefficient is not statistically different from zero
- D. Test statistic = 3.7373; The DB regression coefficient is not statistically different from zero

Q.7 Karsley Bank, located in Arizona, wishes to establish its footing in Delaware by acquiring Quota Bank. Employees and senior management of the latter do not want their business to be enjoined to that of the former in part because they feel their bank's future is bright. In particular, the directors of Quota Bank fear that the new owners may opt to fire them in favor of new management located in Arizona. The directors decide to seek advice from a reputable investment bank on how to fend off the takeover. Assuming you were one of the advisory panel members, which of the following would likely not form part of your advice?

- A. That Quota Bank adds to its charter a provision that if another company acquires one-third of the shares, other shareholders have the right to sell their shares to that company for a large premium over market prices
  - B. That Quota Bank should file a lawsuit to dispute the possible takeover
  - C. That Quota Bank adds to its charter a provision making it impossible for any new owners to terminate the contracts of existing directors
  - D. That Quota Bank grants its employees stock options that can be exercised in the event of a takeover
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Q.8 In an options trading seminar, an instructor presents a case where a trader buys a European call option on a stock currently priced at \$100. The option has a strike price of \$100 and expires in one year. Given the stock's volatility and the market conditions, the instructor calculates the delta of the option and uses it to discuss hedging strategies. What does the delta of this call option primarily represent?

- A. The probability that the option will be exercised at expiration.
  - B. The rate of change of the option's price with respect to the stock's price.
  - C. The sensitivity of the option's price to changes in the risk-free rate of interest.
  - D. The time decay of the option's value as it approaches expiration.
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