Question #1 of 5

Question ID: 1751579

Regarding the consequences of sovereign default, which of the following statements is incorrect?

A) Sovereign default can cause trade retaliation.

B) Sharp currency appreciations often follow defaults.

C) Gross domestic product (GDP) growth falls between 0.5% and 2% following a sovereign default, and the decline is short lived.

D) Ratings of countries that have defaulted at least once since 1970 are one to two grades lower than the ratings of similar countries that have not defaulted.

Question #2 of 5

Question ID: 1751580

An investment analyst has been asked to contribute to a written report on country risk assessment. Specifically, he is required to research and report on the factors that influence the level of sovereign default risk. Which of the following statements should the analyst make in his report?

A) Countries with greater pension commitments and health care commitments have lower default risk.

B) Countries with less diversified economies are more likely to have stable tax receipts.

C) The greater the tax receipts, the less able a country is to make debt payments.

D) One must consider the amount the country owes its own citizens when evaluating default risk.

Question #3 of 5

Question ID: 1751577

When analyzing how a country's political risk, legal risk, position in the economic growth life cycle, and economic structure affect its risk exposure, which of the following statements is correct?

A) One component of political risk is continuous versus discontinuous risks.

B) Regarding legal risks, the protection of property rights does not affect default risk.

C) Regarding the economic growth life cycle, more mature companies are more risky than firms in the early stages of growth.

D) Regarding economic structure, a disproportionate reliance on a single commodity or service in an economy decreases a country's risk exposure.

Question #4 of 5

Question ID: 1751581

Which of the following statements most likely describes an advantage of using the sovereign default risk spread as a predictor of defaults?

A) An analyst can compare local currency bonds with each other when using default risk spreads.

B) Default risk spreads are not volatile, so changes in spreads are not affected by variables unrelated to the default risk of the sovereign.

C) When calculating a default risk spread, there is no need for a risk-free security in the currency in which the bonds are issued.

D) As bonds trade and bond yields rise and fall, default risk spreads change, revealing information about the market's perception of risk.

Question #5 of 5

Question ID: 1751578

Regarding instances of sovereign default in foreign currency debt, which of the following statements is incorrect?

A) In dollar terms, Eastern Europe has accounted for the largest proportion of sovereign defaults in the last 50 years.

B) A large proportion of sovereign defaults are foreign currency defaults.

C) Countries are more likely to default on funds borrowed from banks than on sovereign bond issues.

D) Over the last 200 years, there have been many instances of default.