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The certification is necessary to get a job in your desired GARP company. Success in the test gives you an edge over the others because you will have certified skills that will make a good impression on the interviewer. Most people preparing for the 2016-FRR Exam are confused about preparation. How will they get real and updated Financial Risk and Regulation (FRR) Series (2016-FRR) exam questions?

GARP 2016-FRR Certification Exam is a computer-based exam that consists of 100 multiple-choice questions. Candidates have four hours to complete the exam. 2016-FRR Exam is offered in English and can be taken at various testing centers around the world. The passing score for the exam is 70%.

## **GARP Financial Risk and Regulation (FRR) Series Sample Questions (Q256-Q261):**

### **NEW QUESTION # 256**

Which one of the following four statements describes the advantage of using delta-gamma method of mapping options positions over delta-normal method?

Delta-gamma method

- A. Converts options into underlying factor risks according to their deltas and the gammas to those factors.

- B. Overstates the risk of long option positions, but understate the risk of short option positions.
- **C. Fully captures option price risk, particularly for extreme price movements.**
- D. Approximates more accurately the non-linear relationship of option values and risk.

**Answer: C**

Explanation:

The delta-gamma method improves upon the delta-normal method by incorporating the gamma of the options, which accounts for the curvature in the price relationship of the option to the underlying asset. This method better captures the non-linear aspects of option pricing, especially for extreme price movements. Gamma measures the rate of change of delta with respect to the price of the underlying asset, thus allowing for a more accurate reflection of the option's risk profile. By including gamma, the delta-gamma method can more accurately represent the risks associated with both small and large movements in the underlying asset's price, making it particularly effective for capturing the full spectrum of option price risk.

**NEW QUESTION # 257**

Which one of the following four statements regarding commodity derivative risks is INCORRECT?

- **A. In most commodities, the longest term contracts are the most volatile, while the shortest term forward contract are the least volatile.**
- B. Calendar spreads represent a special case of basis risk and occur when the relative prices of commodity futures do not come in alignment and the trader becomes exposed to the absolute price movements.
- C. Some commodities can be both in backwardation and have a strong seasonal element.
- D. Because of the different demand/supply balance in each region and the cost of transporting the oil between regions, a tanker of Brent crude oil in the UK will have a different value to a UK buyer than a tanker of Arab light crude oil in Singapore, which results in the basis risk.

**Answer: A**

Explanation:

This statement is incorrect because it is generally observed that longer-term contracts can be less volatile due to the smoothing effect over time, whereas short-term contracts can be more sensitive to immediate market conditions and supply-demand imbalances.

References Verified with information on the volatility of term contracts in commodity derivatives discussed in the book "How Finance Works".

**NEW QUESTION # 258**

Which of the activities represent examples of market manipulation?

- A. Stop-loss order
- **B. Short squeeze**
- C. Market gap
- D. Crowded trades

**Answer: B**

Explanation:

Market manipulation refers to deliberate actions taken to deceive or mislead investors by affecting the supply, demand, or price of securities. Here are the activities considered:

\* Market gap: This refers to the difference between the closing price of one trading session and the opening price of the next session. It is not inherently a form of market manipulation.

\* Crowded trades: These occur when a large number of market participants take the same position in a security. While this can influence prices, it is not a deliberate act of manipulation.

\* Short squeeze: This occurs when a heavily shorted stock suddenly increases in price, forcing short

\* sellers to buy back shares to cover their positions, further driving up the price. This can be orchestrated to create rapid price increases, qualifying as market manipulation.

\* Stop-loss order: This is an order placed with a broker to buy or sell once the stock reaches a certain price. It is a risk management tool and not a form of manipulation.

Therefore, a short squeeze is an example of market manipulation.

References Source: How Finance Works

### NEW QUESTION # 259

To estimate the forward price of oil, a commodity trader would most likely use the following pricing relationship:

- A. Oil forward price = Expected future oil price  $\pm$  Oil market risk premium
- B. Oil forward price = Expected future oil price  $\pm$  storage cost + Oil market risk premium
- C. Oil forward price = Expected future oil price  $\pm$  Oil storage cost + (1 - Oil market risk premium)
- D. Oil forward price = Expected future oil price  $\pm$  Oil storage cost + (1 + Oil market risk premium)

**Answer: A**

### NEW QUESTION # 260

To hedge equity exposure without buying or selling shares of stock or otherwise rebalancing the portfolio, a risk manager could initiate

- A. A long debt-for-equity swap.
- B. A short total return swap position.
- C. A long total return swap position.
- D. A short debt-for-equity swap.

**Answer: B**

Explanation:

To hedge equity exposure without buying or selling shares of stock or rebalancing the portfolio, a risk manager can use derivatives. One effective method is:

\* Short Total Return Swap (TRS) Position: By entering into a short TRS, the risk manager agrees to pay the total return of the equity (including any dividends and capital gains) to the counterparty, effectively offsetting the exposure to the equity's performance. This allows the manager to hedge the risk without having to liquidate any holdings or reallocate the portfolio.

\* Avoiding Portfolio Rebalancing: This method avoids the transaction costs and potential market impact of rebalancing the portfolio through buying or selling actual shares.

### NEW QUESTION # 261

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