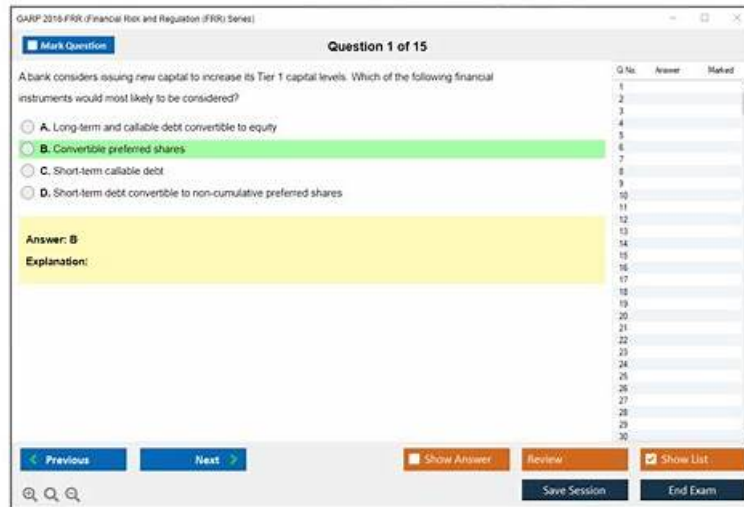


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GARP 2016-FRR exam is divided into two parts: Part I and Part II. Part I covers the fundamental concepts of financial risk and regulation, including risk management, financial markets and institutions, and regulatory compliance. Part II focuses on advanced topics such as market risk, credit risk, operational risk, and risk governance. 2016-FRR exam is designed to be comprehensive and challenging, ensuring that only the most qualified candidates are awarded certification.

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GARP Financial Risk and Regulation (FRR) Series Sample Questions (Q101-Q106):

NEW QUESTION # 101

Short-selling is typically associated with the following risks:

- I. Potential for extreme losses
- II. Risk associated with the availability of shares to borrow

III. Market behavior risk

IV. Liquidity risk

- A. I, II
- B. II, IV
- C. I, III
- **D. I, II, III, IV**

Answer: D

NEW QUESTION # 102

After entering the securitization business, Delta Bank increases its cash efficiency by selling off the lower risk portions of the portfolio credit risk. This process ____ return on equity for the bank, because the cash generated by the risk-transfer and the overall ____ of the bank's exposure to the risk.

- A. Increases; increase;
- **B. Increases; reduction;**
- C. Decreases; reduction;
- D. Decreases; increase;

Answer: B

NEW QUESTION # 103

Which one of the following four statements best describes challenges of delta-normal method of mapping options positions?

Delta-normal method understates

- A. Risks of long option positions for puts and overstates risks of short option positions for calls.
- B. Risks of long and short positions for both calls and puts.
- **C. Risks of short option positions and overstates risks of long option positions for both calls and puts.**
- D. Risks of long option positions for calls and overstates risks of short option positions for puts.

Answer: C

NEW QUESTION # 104

To reduce the variability of net interest income, Gamma Bank can swap positions that make its duration gap equal to

- **A. 0**
- B. 0.5
- C. 1
- D. 2

Answer: A

Explanation:

To minimize the variability of net interest income, Gamma Bank should aim to have a duration gap of zero.

This means that the weighted average duration of assets matches the weighted average duration of liabilities, thus immunizing the bank's net interest income against changes in interest rates.

NEW QUESTION # 105

Which one of the following four attributes would likely help a trader using exchange-traded options to establish a leveraged position?

- A. Unlimited losses for long option positions
- **B. Higher degrees of exposure at less cash cost**
- C. Option positions have the same credit risks as a margined long forward.
- D. Option positions have the same cash risks as a margined short futures purchase.

Answer: B

Explanation:

To establish a leveraged position using exchange-traded options, a trader would benefit from attributes that increase exposure while minimizing initial cash outlay.

* Higher degrees of exposure at less cash cost: Options provide significant leverage because they allow traders to control large positions with a relatively small amount of capital. This leverage is achieved through the options' pricing mechanism, where the premium paid is significantly less than the actual value of the underlying asset.

* Unlimited losses for long option positions: This is not an advantage for establishing a leveraged position. In fact, long option positions have limited losses, confined to the premium paid.

* Option positions have the same credit risks as a margined long forward: This is incorrect. Options have different risk profiles compared to margined long forwards, primarily because options confer the right

* but not the obligation to execute the contract.

* Option positions have the same cash risks as a margined short futures purchase: This is incorrect.

Options and futures have different risk and margin requirements, and they do not expose traders to the same cash risks.

Thus, the most advantageous attribute for a trader using exchange-traded options to establish a leveraged position is the higher degrees of exposure at less cash cost.

ReferencesSource: How Finance Works

NEW QUESTION # 106

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