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# IMPORTANT MULTIPLE CHOICE QUESTIONS

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# RISK MANAGEMENT



## **MULTIPLE CHOICE QUESTIONS**

**Q1. Interest rate risk can be reduced by \_\_\_\_\_**

- a) Accepting Collaterals
- b) Entering into Forward Contracts
- c) Derivatives of Interest Rate Swaps
- d) Diversification of Advances

**Q2. Premature payment of a term loan will result in which type of interest rate risk?**

- a) Basis risk
- b) Yield curve risk
- c) Embedded option risk
- d) Mismatch risk

**Q3. What is the most critical function of Risk Management?**

- a) Measurement of risk
- b) Identification of risks
- c) Estimating the costs of risk
- d) Controlling the level of risk to an organization's capacity

**Q4. What kind of risk on settlements is covered by “Herstatt Risk” for which BCBS was formed?**

- a) Exchange rate risk
- b) Time difference risk
- c) Interest rate risk
- d) None

**Q5. In case of Domestic banks risk weights are assigned depends on?**

- a) CRAR
- b) ECA
- c) CSU
- d) None

**Q6. How is Financial Risk defined as?**

- a) Uncertainties resulting in adverse variation of profitability or outright losses
- b) Uncertainties that result in outright losses
- c) Uncertainties in cash flow
- d) Variations in net cash flows

**Q7. Which of the followings are Components of portfolio risk are?**

- a) Default risk and systematic risk
- b) Down - gradation and concentration risk
- c) Concentration risk and intrinsic risk
- d) Default risk and down -gradation risk

**Q8. What best describes: Strategic Risk**

- a) Interest rate risk
- b) Operational risk
- c) Liquidity risk
- d) None of these

**Q9. A rise in Government securities prices will make yield curve:**

- a) Slope upward
- b) Shift downward
- c) Remain stable
- d) Shift upward

**Q10. Risk mitigation measures result in****1) Reducing downside variability****2) Reducing upside potential which of the following is true**

- a) Both the statements are correct
- b) Both the statements are not correct
- c) Statement 1 is correct
- d) Statement 2 is correct

**Q11. 9% Government of India security is quoted at Rs.120. The current yield on the security will be:**

- a) 0.12
- b) 0.09
- c) 0.075
- d) 0.133

**Q12. What is the best definition of Financial Risk?**

- a) Uncertainties resulting in adverse variation of profitability or outright losses
- b) Uncertainties that result in outright losses
- c) Uncertainties in cash flow
- d) Variations in net cash flows

**Q13. What best describes: Strategic Risk**

- a) Interest Rate Risk
- b) Operation Risk
- c) Liquidity Risk
- d) None of the above

**Q14. Objective of liquidity management is to:**

- a) Ensure profitability
- b) Ensure liquidity
- c) Either of two
- d) Both

**Q15. A mutual fund charges 1% entry load and no exit load. Its NAV is Rs.16; its sale and repurchase price will be:**

- a) Rs.16 and Rs.15.80
- b) Rs.16.16 and Rs.15.84
- c) Rs.15.84 and Rs.16
- d) Rs.16.16 and Rs.16

**Q16. Why does Banks need liquidity?**

- a) Meet deposit withdrawal
- b) Fund loan demands
- c) Both of them
- d) None of them

**Q17. Which of the following statements is true with respect to Internal Audit:**

- a) It can eliminate fraud altogether
- b) It is a deterrent against fraud
- c) IA can replace external audit
- d) It assures the integrity of the process and also tests to assure that the process and related controls are being followed

**Q18. What is BASEL?**

- a) Basel is the name of a place in Switzerland
- b) It is the place where HQ of Bank for International Settlements (BIS) is located
- c) It is a place in New York where the HQ of BIS is located
- d) A & B

**Q19. Basel Committee was established in the year:**

- a) 1978.0
- b) 1974.0
- c) 1998.0
- d) 2007

**Q20. The objective of Risk management is to Cover only**

- a) Credit risk
- b) Operational risk & Market risk
- c) Credit & operational risk
- d) Credit & Market risk
- e) All of these

**Q21. Minimum Capital Adequacy ratio as per International Standard is**

- a) 0.09
- b) 0.08
- c) 0.1
- d) None of the above

**Q22. Credit risk refers to the risk which arises when the counterparty is unwilling or unable to meet or fulfill the contractual obligations / commitments, thereby leading to defaults.**

- a) True
- b) False
- c) Cannot Determine
- d) None of these

**Q23. Credit risk refers to the risk associated with long term credit.**

- a) True
- b) False
- c) Cannot Determine
- d) None of these

**Q24. The term “Hair Cut” refers to**

- a) Adjustment in the value of collateral to take care of future change in price of the security
- b) It refers to reduction of operation risk
- c) It refers to reduction of supervisory risk
- d) None of the above

**Q25. In case of Housing loans up to Rs 30.00 lac where LTV is up to 75%, the risk weight is:**

- a) 0.35
- b) 0.5
- c) 0.75
- d) 1.0



## ANSWER KEY

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
<i>c</i>	<i>c</i>	<i>d</i>	<i>b</i>	<i>a</i>
<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
<i>d</i>	<i>c</i>	<i>d</i>	<i>d</i>	<i>a</i>
<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>
<i>c</i>	<i>a</i>	<i>d</i>	<i>d</i>	<i>d</i>
<u>16</u>	<u>17</u>	<u>18</u>	<u>19</u>	<u>20</u>
<i>c</i>	<i>d</i>	<i>d</i>	<i>b</i>	<i>e</i>
<u>21</u>	<u>22</u>	<u>23</u>	<u>24</u>	<u>25</u>
<i>b</i>	<i>a</i>	<i>b</i>	<i>a</i>	<i>b</i>