FRM Practice Test Questions and Answers

1. What does VaR (Value at Risk) measure?

A) Expected return on investment

B) Maximum potential loss at a given confidence level

C) Average daily trading volume

D) Portfolio diversification ratio

2. Which of the following is a key component of operational risk?

A) Market volatility

B) Credit default

C) Human error

D) Interest rate changes

3. What is the primary purpose of stress testing in risk management?

A) To calculate daily profits

B) To assess portfolio performance under extreme scenarios

C) To determine optimal portfolio allocation

D) To measure correlation between assets

4. Which Basel III requirement focuses on ensuring banks have sufficient high-quality capital?

A) Liquidity Coverage Ratio

B) Net Stable Funding Ratio

C) Common Equity Tier 1 ratio

D) Leverage Ratio

Answers: 1-B 2-C 3-B 4-C