Financial Risk Management Practice Test Questions and Answers

1. What does RR mean?

A) FAD recovered
B) EAD recovered
C) PD recovered
D) LGD recovered

2. The 'Sharpe ratio' measures:

A) Portfolio return relative to the total market return benchmark
B) Risk-adjusted return defined as excess return per unit of total volatility
C) The probability of achieving a positive return over a 12-month holding period
D) The portfolio's sensitivity to systematic market risk (beta)

3. The 'Greeks' measure vega as:

A) Sensitivity of option price to the passage of time
B) Sensitivity of option price to changes in implied volatility
C) Sensitivity of option price to interest rate changes
D) The rate of change of delta with respect to underlying price

4. What is basis risk in hedging?

A) The risk that a hedge will exceed 100% effectiveness
B) The residual risk when the hedging instrument does not perfectly offset the exposure being hedged
C) Risk that arises from using options instead of futures to hedge
D) The credit risk of a hedge counterparty defaulting

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