

QFC Practice Test Questions and Answers

1. What is Value at Risk (VaR) used for?

- A) Estimate potential portfolio losses
- B) Predict exact future returns
- C) Increase investment volatility
- D) Eliminate financial risk entirely

2. What is 'convexity' in bond analysis?

- A) The coupon rate adjustment for inflation
- B) The second-order measure of bond price sensitivity to yield changes, improving on duration's linear approximation
- C) The difference between a bond's yield and the risk-free rate
- D) The bond's sensitivity to changes in the issuer's credit rating

3. What is the Sharpe ratio used to measure?

- A) Total portfolio risk
- B) Risk-adjusted return per unit of total risk
- C) Return relative to a benchmark
- D) Portfolio beta vs. the market

4. What is the 'yield to maturity' (YTM) of a bond?

- A) The bond's annual coupon rate stated on its face
- B) The discount rate that equates the present value of all cash flows to the bond's current market price
- C) The yield earned if the bond is held to first call date
- D) The difference between the par value and market price

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

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