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Sample Questions

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1 – Basic Interest Rate Calculations

1.1 An overnight deposit of GBP 10,000,000.00 is made on Monday at 0.40% and is then rolled on Tuesday at 0.45%, on Wednesday at 0.50%, on Thursday at 0.48% and on Friday at 0.53%. How much is repaid (principal plus interest) on the following Monday?

A GBP 10,000,936.99
B GBP 10,000,950.03
C→ GBP 10,000,937.02
D GBP 10,000,646.59

1.2 A 6-month (182-day) investment of CAD 15,500,000.00 yields a return of CAD 100,000.00. What is the rate of return?

A 0.65%
B→ 1.28%
C 1.29%
D 1.32%

1.3 The maturity of a 6-month deposit would fall on a Sunday, which happens to be the last day of the month. What is the actual deposit maturity date?

A→ The previous Friday
B The previous Saturday
C Sunday
D The following Monday

1.4 What is the day count/annual basis convention for ZAR money market deposits?

A 30E/360
B ACT/ACT
C ACT/360
D→ ACT/365

1.5 Using the following rates:
6M (184-day) USD deposit 0.50%
12M (366-day) USD deposit 1.00%
What is the rate for a USD deposit, which runs from 6 to 12 months?

A 0.50%
B 0.75%
C 1.00%
D→ 1.50%

2 – Cash Money Market

2.1 Which of the following money market instruments typically pays return in the form of a discount to face value?

A→ USCP
B Classic repo
C CD
D Euro CD

2.2 Which one of the following instruments has a maximum maturity of 5 years?

A Euro Commercial Paper
B US Treasury bill
C→ London CD
D Unsecured USCP

2.3 A GBP deposit traded in Luxembourg between two Swiss banks is cleared:

A wherever the parties agree
B in Zürich
C in Luxembourg
D→ in London

2.4 Which counterparty in a classic repo usually takes an initial margin?

A The seller
B→ The buyer
C Both
D Neither

2.5 What happens when a coupon is paid on bond collateral during the term of a sell/buy-back?

A A margin call is triggered on the seller
B→ The equivalent value plus reinvestment income is deducted from the buy-back price
C Nothing
D A manufactured payment is made to the seller

3 – Cash Money Market Calculations

3.1 You have taken 6-month (183 days) deposits of GBP 10,000,000.00 at 0.60% and GBP 15,000,000.00 at 0.55%. The same day, you quote 6-month GBP 0.57-62% to another bank. The other dealer takes GBP 25,000,000.00 at your quoted price. What is your profit or loss as a result of these 3 transactions?

A Nil
B→ Profit of GBP 6,267.12
C Profit of GBP 6,354.17
D Loss of GBP 6,354.17

3.2 A 2.50% CD was issued at par, which you now purchase at 2.35%. How much would you expect to pay?

A Too little information to answer
B The face value of the CD
C→ More than the face value of the CD
D Less than the face value of the CD

3.3 A 3-month (91 day) UK Treasury bill with a face value of GBP 50,000,000.00 is quoted at a yield of 4.25%. How much is the bill worth?

A→ GBP 49,475,760.27
B GBP 49,470,205.48
C GBP 49,462,847.22
D GBP 47,875,000.00

3.4 The tom/next GC repo rate for German government bonds is quoted to you at 1.75-80%. As collateral, you sell EUR 10,000,000.00 nominal of the 5.25% Bund July 20XX, which is worth EUR 11,260,000.00. If you have to give an initial margin of 2%, the repurchase price is:

A EUR 11,039,752.32
B EUR 11,035,336.41
C EUR 11,035,351.74
D→ EUR 11,039,767.65

3.5 What market value of collateral does a dealer need against USD 50,000,000.00 in cash in a 3-day reverse repo at a rate of 2.10% if he takes an initial margin of 2%?

A USD 52,000,000.00
B→ USD 51,000,000.00
C USD 50,000,000.00
D USD 49,000,000.00

4 – Foreign Exchange

4.1 A customer asks for a price in 3-month cable. You quote 20/18. The customer deals at 18. What have you done?

A Sold GBP against USD 3-month outright
B Sold GBP against USD spot and bought GBP against USD 3-month forward
C→ Bought GBP against USD spot and sold GBP against USD 3-month forward
D Bought USD against GBP spot and sold USD against GBP 3-month forward

4.2 Four banks provide you with quotes in EUR/NOK. Which is the best price for you to buy NOK?

A 7.8725
B 7.8723
C→ 7.8727
D 7.8721

4.3 The "spot basis" of a 3-month against 6-month EUR/CHF forward/forward swap is:

A always the forward EUR/CHF bid rate of the first swap leg
B→ generally the prevailing 3-month forward EUR/CHF mid-rate
C commonly the prevailing 6-month forward EUR/CHF mid-rate
D normally the current spot EUR/CHF mid-market rate

4.4 What do you call an outright forward FX transaction where the customer can choose any maturity within a previously fixed period?

A Open forward
B Put option
C→ Time option
D Choice option

4.5 The buyer of a USD/RUB NDF could be:

A a buyer of Russian Rouble
B a potential seller of USD against RUB
C expecting falling USD/RUB exchange rates
D→ speculating on a depreciation of the Russian Rouble

5 – Foreign Exchange Calculations

5.1 Spot USD/CHF is quoted to you at 0.9613-17. If you sold CHF 10,000,000.00 at this quote, how many USD would you receive in exchange?

A USD 9,613,000.00
B USD 9,617,000.00
C USD 10,402,579.84
D→ USD 10,398,253.09

5.2 Spot EUR/JPY is quoted at 130.00-05 and spot EUR/CHF at 1.2350-55. What is the CHF/JPY cross-rate?

A 0.009496-04
B 105.22-26
C→ 105.22-30
D 160.55-68

5.3 You are quoted spot USD/CAD 1.0535-40 and 3-month USD/CAD swap 24/26. At what rate can you sell USD against CAD outright 3-month?

A→ 1.0559
B 1.0561
C 1.0564
D 1.0566

5.4 The 92-day EUR/NOK rate is bid 302 and the 61-day EUR/NOK rate is bid 186. What is the EUR/NOK bid rate for 81 days, assuming straight-line interpolation?

A 244
B 255
C→ 261
D 259

5.5 If you were quoted XAU/USD 1349.75-25 and USD/SGD 1.2795-00, how many SGD would you pay to buy 100 ounces of gold?

A 172,700.51
B 172,704.00
C 172,760.00
D→ 172,832.00

6 – Forward-Forwards, FRAs, Money Market Futures & Swaps

6.1 A forward-forward borrower has an exposure to the risk of:

A Parallel shift upwards in the yield curve
B Steepening yield curve
C Higher interest rates
D→ Lower interest rates

6.2 The market is quoting:
3-month (91-day) SEK 1.09%
6-month (182-day) SEK 1.22%
9-month (273-day) SEK 1.35%
What is the 3x9 rate in SEK?

A 1.220%
B 1.346%
C→ 1.476%
D 1.600%

6.3 You have taken a position on future interest rates by buying a 6x12 (183-day) EUR 75,000,000.00 FRA at 0.57%. If EURIBOR for the contract period turns out to be 0.71%, what is the settlement amount and do you pay or receive?

A You pay EUR 52,457.10
B You receive EUR 52,457.10
C You receive EUR 53,375.00
D→ You receive EUR 53,183.05

6.4 Today, you bought 25 June EURODOLLAR futures contracts at 99.50. The closing price is fixed by the exchange at 99.45. What variation margin will be due?

A→ You will have to pay USD 3,125.00
B You will receive USD 3,125.00
C You will have to pay USD 1,562.50
D You will receive USD 1,562.50

6.5 An Overnight Indexed Swap (OIS) is:

A A floating-for-floating rate swap in different currencies in which both floating rates are overnight indexes compounded daily
B A fixed-floating money market swap in which the fixed rate is an overnight index fixed periodically over the term of the swap
C A fixed-floating money market swap in which the floating rate is the mean of the overnight index over the term of the swap
D→ A fixed-floating money market swap in which the floating rate is an overnight index compounded daily

7 – Options

7.1 The intrinsic value of a long call option:

A Rises if the price of the underlying falls and vice versa
B→ Falls and rises with the price of the underlying when the option is in-the-money
C Depends solely on the volatility of the price of the underlying
D Becomes negative if the market price of the underlying falls below the strike price of the option

7.2 The delta of an 'at-the-money' long put option is:

A Between –0.5 and –1
B Between +0.5 and +1
C Close to +0.5
D→ Close to –0.5

7.3 The vega of an option is:

A The sensitivity of the option value to changes in the price of the underlying
B The sensitivity of the option value to changes in the time to expiry
C→ The sensitivity of the option value to changes in implied volatility
D The sensitivity of the option value to changes in interest rates

7.4 What is a long straddle option strategy?

A→ A long call option + long put option with the same underlying asset, expiration date and strike price
B A long call option + short put option with the same underlying asset, expiration date and strike price
C A short call option + long put option with the same underlying asset, expiration date and strike price
D A short call option + short put option with the same underlying asset, expiration date and strike price

7.5 How can options be used to synthesise a short position in the underlying commodity?

A A short put option + short call option with the same underlying asset, expiration date and strike price
B A short put option + long call option with the same underlying asset, expiration date and strike price
C A long put option + long call option with the same underlying asset, expiration date and strike price
D→ A long put option + short call option with the same underlying asset, expiration date and strike price

8 – Asset & Liability Management

8.1 What is the principal risk identified by gap management reporting?

A Operational risk
B Credit Risk
C Currency risk
D→ Interest rate risk

8.2 The Liquidity Coverage Ratio imposed by Basel III requires a bank:

A to retain enough liquidity to cover its assets against severe default risk
B→ to keep enough highly liquid assets to cover its net liabilities for the next 30 days to guard against severe liquidity stress
C to keep enough highly liquid assets to cover its net liabilities for the next 60 days to guard against severe liquidity stress
D to keep enough highly liquid assets to cover its net liabilities for the next 10 days to guard against severe liquidity stress

8.3 Which duties are commonly assigned to the ALCO?

A specifying and controlling interbank credit lines
B→ managing and specifying the bank's market and liquidity risk profile
C verifying and administering the bank's balance sheet accounting
D managing the day-to-day activities of the dealing room

8.4 Given a flat yield curve of 4.50%, which of the following assets would have the greatest interest rate sensitivity?

A a 4.00% fixed coupon bond with 6 years to maturity
B a 5.00% fixed coupon bond with 6 years to maturity
C→ a zero-coupon bond with 6 years to maturity
D a floating rate note with 6 years to maturity

8.5 Using repricing gap analysis, a bank's balance sheet is considered liability-sensitive to market interest rate changes, if:

A→ more liabilities than assets will be repriced in the near term
B non-interest bearing liabilities are greater than non-interest bearing assets
C more assets than liabilities will be repriced in the near term
D more assets than liabilities have variable rates or short residual maturities

9 – Principles of Risk

9.1 Which one of the following situations is an example of wrong way risk?

A A hedge fund is long US AAA residential mortgage-backed securities and short US government bonds.
B→ A German bank buys a bond issued by an Icelandic bank and enters into a CDS as a protection buyer with another Icelandic bank on the same bond.
C A German bank enters into a repo trade with an Icelandic bank, delivering bonds issued by another Icelandic bank as collateral.
D A German bank enters into an FX swap with a US investment bank and transfers EUR 350,000,000.00 to that bank.

9.2 Interest rate risk and equity risk are:
A credit risks
B settlement risks
C operational risks
D→ market risks

9.3 What is the correct interpretation of a EUR 5,000,000.00 overnight VaR figure with a 95% confidence level?

A→ A loss greater than EUR 5,000,000.00 can be expected in 5 out of the next 100 days.
B A loss greater than EUR 5,000,000.00 can be expected in 95 out of the next 100 days.
C A loss of at most EUR 5,000,000.00 can be expected in 5 out of the next 100 days.
D A loss greater than EUR 5,000,000.00 can be expected in 5 out of the next 1000 days.

9.4 Which of the following methods is a means of credit risk mitigation?

A investing only in sizeable and liquid markets
B entering into a plain vanilla IRS
C→ entering into collateral agreements
D hedging a portfolio's USD exposure

9.5 Which of the following are required under Basel III?

A A minimum common equity capital ratio of 4.0% and a capital conservation buffer of 2.5%
B A minimum common equity capital ratio of 4.5% and a capital conservation buffer of 1.5%
C→ A minimum common equity capital ratio of 4.5% and a capital conservation buffer of 2.5%
D A minimum common equity capital ratio of 5.5% and a capital conservation buffer of 2.5%