1) Which one of the following is not an element of the formal definition for VaR?

A. Worst Case Loss  
B. Tolerance Level  
C. Normality of returns  
D. Liquidation period  
E. None of the above

2) Which metric is used to measure the contribution of the addition of a particular position to the total risk of a portfolio?

A. SMA VaR  
B. EWMA VaR  
C. Historical VaR  
D. Incremental VaR  
E. None of the above

3) We can compare recent risk of the portfolio with historical risk of the portfolio by comparing the results of SMA VaR and Historical VaR.

A. True  
B. False

4) Daily returns are calculated as:

A. The arithmetic difference between consecutive daily prices  
B. The proportion of consecutive daily prices less 1  
C. The natural logarithm of the daily price  
D. The natural logarithm of the difference between consecutive daily prices
5) Daily volatility under SMA VaR is calculated in EXCEL as:

A. STDEV (Daily Prices)
B. VAR (Daily Prices)
C. STDEV (% Change in Daily Returns)
D. VAR (% Change in Daily Returns)
E. STDEV (Daily Returns)

6) A more appropriate measure for Value at Risk for a Bond is Rate VaR rather than Price VaR.

A. True
B. False

7) Which one of the VaR methods does not make use of the normality of returns assumption?

A. Monte Carlo Simulation Approach
B. Simple Moving Average Variance Covariance Approach
C. Exponentially Weighted Moving Average Variance Covariance Approach
D. Historical Simulation Approach
E. None of the Above

8) Which of the VaR methods can be easily explained to senior management?

A. Variance Covariance, Monte Carlo Simulation, Historical Simulation
B. Monte Carlo Simulation and Historical Simulation
C. Monte Carlo Simulation
D. Variance Covariance
9)
Value at Risk for a given equity portfolio is:

A. The underlying volatility of the equity portfolio
B. The maximum loss that can be experienced in the equity portfolio over a specified holding period
C. The worst case loss that can be experienced in the equity portfolio with a certain level of probability
D. The regulatory capital needed to cover the underlying risk in the equity portfolio
E. None of the above

10)
Under the Historical Simulation approach to calculating VaR what is not an underlying assumption or requirement:

A. Liquidity factor
B. Confidence Level
C. Normal Distribution
D. Ordered Distribution
E. Past Data

11)
The daily volatility is 0.74%. The number of trading days in a year is 252 days. The confidence level is 99% and the length of the holding period is 10-days. What is the 10-day holding period VaR according to the Variance Covariance Approach?

A. 1.72%
B. 2.34%
C. 5.44%
D. 6.03%
E. 7.40%
12) A way to bypass the construction of the Variance Covariance Matrix for determining portfolio VCV VaR is to:

A. Calculate the VaR for each instrument in the portfolio and then calculate a weighted average using these VAR figures and the instruments respective weight in the portfolio.

B. Calculate the volatility for each instrument in the portfolio and then calculate a weighted average volatility. Use the appropriate confidence level and holding period to determine the portfolio VaR from this average volatility.

C. Calculate a weighted average prices series for the portfolio. Calculate the returns of the resulting weighted average price series. Determine the standard deviation of this resulting return series. Use the appropriate confidence level and holding period to determine the portfolio VaR from this volatility.

D. Calculate a weighted average returns series for the portfolio. Determine the standard deviation of this resulting return series. Use the appropriate confidence level and holding period to determine the portfolio VaR from this volatility.

E. None of the above.

13) A way to reduce the difference in results between a full valuation Price VaR approach to calculating VaR for fixed income bonds and a delta normal adjustment to the Rate VaR approach is to make an additional adjustment for:

A. Duration

B. Convexity

C. Maturity

D. Price

E. Yield

14) We can learn more about the true risk distribution of the portfolio by looking at Historical VaR and the VaR trend line over time.

A. True
15) One way of extending the application of VaR is to use it as a tool for margin projection and margin management purposes.

A. True
B. False

16) \( S(\text{Return}_{asset} \times \text{Weight}_{asset}) \) summed across all assets in the portfolio can be calculated in Excel using the function SUMPRODUCT.

A. True
B. False

17) The Rate VaR measure does not reflect the interest rate sensitivity, hence the market risk, of a given fixed income bond.

A. True
B. False

answers

1) Normality of returns
2) Incremental VaR
3) False
4) The natural logarithm of the difference between consecutive daily prices
5) STDEV (Daily Returns)
6) False
7) Historical Simulation Approach
8) Historical Simulation

9) The worst case loss that can be experienced in the equity portfolio with a certain level of probability

10) Normal Distribution

11) 5.44%

12) Calculate a weighted average returns series for the portfolio. Determine the standard deviation of this resulting return series. Use the appropriate confidence level and holding period to determine the portfolio VaR from this volatility.

13) Convexity

14) True

15) True

16) True

17) True