Question Bank

Accredited Risk Management Officer（ARMO^{TM}）certification (P1)

1. There is a three-year bond with present value of $105.35, cash flow present value of $7.55 in the first year, $7.12 in the second year and $90.68 in the third year, so Macaulay duration is (   ).

A.   2.79

B.   2.63

C.   3.30

D.   3.67

Answer: A

2. Among the following statements about accounting elements, the incorrect one is (   ).

A.   Net profit refers to the balance of product price after deducting production cost.

B.   Assets, liabilities and owner's equity constitute the basic framework of the balance sheet.

C.   Income, expenses and profits are accounting elements reflecting operating results.

D.   Accounting elements are the basic units used to reflect the financial status and economic achievements of a specific accounting entity.

Answer: A

3. Charlie Gauss, AMRO, is chief risk officer at Millionaire Asset Management (MAM), Gauss and his good friend Chris Paul, a well-known local real estate broker, have arranged to go bowling this weekend. Over the weekend at a bowling alley, Gauss ran into Jimmy White, and Gauss introduced White to Paul, continuing to introduce him as a high-net-worth client of MAM. In order to brag about his client to his friend, Gauss further revealed that White was the largest shareholder of a well-known public construction

company in the local-Empire State Building (ESB), and that he was a kind and charitable man. After bowling, the three of them decided to have lunch together, during which White revealed that ESB would report quarterly earnings at early next month, and that the actual earnings exceeded industry analysts' expectations, which would have a positive impact on the stock price. At work the following Monday, Gauss bought Empire State Building stock for his own account. After ESB Reported earnings early the following month, the stock price increased by 30% and Gauss made a $200,000 profit. A month later, one of Gauss's clients gave Gauss two plane tickets to Hawaii for his contribution to risk management. Gauss accepted the gift but did not disclose it to his employer. According to the ISFM's Code of Ethics and Standards of Practice, Gauss is least likely to violate:

A. Confidentiality.

B. The integrity and order of the industry and global financial markets.

C. No misrepresentation.

D. Independence and objectivity

Answer: C

4. The following items can be reflected in the balance sheet (   ).

A. The financial situation at a certain point in time.

B. The solvency of a certain period.

C. Operating results of a certain period.

D. Profitability in a certain period.

Answer: A

5. Which of the followings are the risks in LTCM case? (   )

II.   Imperfect supervision.

III. Financial reporting standards.

IV. Neglect of autocorrelation of economic shocks.

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V.   Underestimation of the correlation between assets during the economic crisis.

A.   II, III and IV.

B.   And III and IV.

C.   I, II, III and IV.

D.   Only I.

Answer: B

6. There are many reasons for the bank failure in Barings Bank, which one of the following is operational risk event? (   )

A.   The Nikkei index plummeted due to the earthquake.

B.   Most of the assets in Barings Banks are illiquid derivatives.

C.   Default of Japanese industrial enterprises.

D.   Failure to supervise the behavior of its traders.

Answer: D

7. What is kurtosis? What is the role of kurtosis in statistical distribution? (   )

A.   Kurtosis is used to measure the distribution range of observed values around the mean value, which is the fourth moment of distribution. The kurtosis calls the peak state, while the small kurtosis calls the low peak state.

B.   The kurtosis represents the third moment. Small kurtosis means high in the middle of the distribution. The one with small kurtosis is called peak state, and the one with large kurtosis is called low peak state.

C.   The kurtosis can be calculated by the fourth moment of the distribution and used to measure the mean value of the distribution.

D.   Kurtosis can be calculated by the second and fourth moments of distribution and used to measure the standard deviation of distribution.

Answer: A

8. Martin Taylor, AMRO, is a risk management specialist at Westwater Asset Management. On Monday, Taylor's manager asked him to analyze the risk profile of Oriental Cement's shares for clients and come up with a valuable strategy. Taylor referred to a report on the cement industry from a nationally renowned research institute and made a lot of careful analysis in combination with regional economic development trends and government economic policies. In addition, Taylor also analyzed the financial statements of Oriental Cement in recent years and finally concluded that the stock price of Oriental Cement was overvalued. Therefore, Taylor prepared a report and persuaded clients to liquidate their positions in Oriental Cement and make other investments. Taylor has followed the company's document preservation policy by digitizing all paper materials used in his research, including his report, and storing them on the company's server. Then, Taylor used a shredder to destroy all the paper materials, because the company's policy required only electronic copies to be kept for cost-effectiveness reasons. Taylor's report will be distributed to all Westwater clients next Monday. Alan Smith, a VIP client of Westwater Asset Management who owns a large stake in Oriental Cement, is also a good friend of Taylor. Taylor understood that Smith's risk tolerance was moderate, and he believed that Smith could not accept large losses. Taylor told Smith the conclusion of his report in advance so that Smith could trade as quickly as possible and avoid the possibility of a big losses. Smith sold all of his shares of Oriental Cement before the market closed Friday. Smith was pleased with Taylor's good service. According to the ISFM's Code of Ethics and Standards of Practice, Taylor's actions are most likely to violate:

A. Dealing with Clients Fairly

B. Records retention

C. Diligence and reasonable basis

D. Loyalty to employers

Answer: A

Ability, Competence and Ethics

9. Which of the following options best illustrates the relationship between normal distribution and lognormal distribution? (   )

A.   Lognormal distribution is the logarithmic form of normal distribution.

B.   If lnX follows lognormal distribution, then x follows normal distribution.

C.   If X follows lognormal distribution, then lnX follows normal distribution.

D.   There is no connection between the two distributions.

Answer: C

10.   On the accrual basis of accounting, the following items belong to the current income or expenses (   ).

A.   Pay the rent of the next house in this period.

B.   Payment received in advance in this period.

C.   Pay the accounts payable of the current period and the previous period.

D.   Goods sold in this period but not yet paid for.

Answer: D

11.   Juan Veron, AMRO, is a risk management officer at Stone Bridge Asset Management, where he specializes in risk management consulting and hedging strategies for the firm's clients. Paul Aimar, a high-net-worth client of Stone Bridge, was pleased with the hedging strategy that Veron offered over the past year, which saved Aimar $5 million in losses. As a recognition of Veron's hard work, Aimar presented Veron with a sports car worth $150,000. Veron was excited and thanked Aimar for the recognition. Next week, Hedgerman Hedge Fund (HHF), a well-known local Hedge Fund, invited a group of nationally renowned risk management experts to attend the Risk Management Summit forum hosted by HHF to discuss the latest trends and solutions in the risk management industry and promote HHF's

Hedge Fund strategy. HHF will reimburse the travel expenses of all the participating experts, and Veron, one of those invited experts, flied to Shanghai on an HHF charter plane after gaining permission from the company. In order to comply with ISFM's Code of Ethics and Standards of Practice, Veron's best course of conduct is:

A.   Disclose Aimar's gifts to employers; Accept HHF's arrangement to attend risk management summit.

B.   Disclose Aimar's gifts to employers before acceptance; Attend HHF-hosted summits, but Stone Bridge pays for travel expenses.

C.   The car was a gift from Aimar to Veron and was not required to be disclosed to the employer; Attend HHF-hosted summits, but Stone Bridge pays for travel expenses.

D.   The car was a gift from Aimar to Veron and was not required to be disclosed to the employer; Accept HHF's arrangement to attend risk management summit.

Answer: B

12.   Same or similar transactions or events occurred in different periods of the same enterprise shall adopt consistent accounting policies and shall not be arbitrarily changed; if it is really necessary to change, it shall be explained in the notes. This follows the accounting information quality requirement of (   ).

A.   Correlation

B.   Comparability

C.   Timeliness

D.   Intelligibility

Answer: B

13.   According to the following statements, which option is wrong? (   )

I.   The first type of error means that when the original hypothesis is wrong, the original hypothesis is not rejected.

Ability, Competence and Ethics

II.   The second type of error refers to rejecting the original hypothesis when it is true.

III.   The first kind of error refers to accepting the alternative hypothesis when it is wrong.

IV.   Minimizing the second kind of errors means maximizing the effectiveness of statistical tests.

A.   I, II

B.   I, III

C.   II, IV

D.   I, II, IV

Answer: A

14. The difference between marginal default probability and cumulative default probability is (   ).

A.   The marginal probability of default is the probability that the borrower will default in any given year, while the cumulative probability of default is the probability of default in a specific multi-year period.

B.   Marginal default probability is the probability that a borrower defaults due to a specific credit event, while cumulative default probability is the probability of default due to all possible credit events.

C.   Marginal default probability is the minimum probability of a borrower's default, while cumulative default probability is the maximum probability of default.

D.   A and C are all correct.

Answer: A.

15.   Which of the following statement about creating tables in Python is correct? (   )

A.   Series is a one-dimensional table with columns parameter.

B.   Series is a two-dimensional table without columns parameter.

C.   DataFrame is a one-dimensional table without an ordered collection of columns.

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D.   DataFrame is a two-dimensional table with an ordered collection of columns.

Answer: D

16.   Suppose an investor owns shares of ABC Company, and he decides to add shares of XYZ Company to his portfolio. The expected returns of these two stocks are equal to the overall risk level. When the correlation coefficient between ABC and XYZ stocks is (   ), the efficiency of portfolio risk reduction is the worst.

A.   0

B.   -1

C.   1

D.   0.5

Answer: C

17.   Which of the following statement about convexity is wrong (   ).

A.   The yield curve is the relationship between bond price changes and maturity returns.

B.   Convexity is an index to measure the curvature of the price-return curve.

C.   The more curved the price curve, the smaller the convexity.

D.   The change of slope on the price yield curve is convexity.

Answer: C

18. Suppose a bank wants to model the loss distribution of error events in its retail banking business. In a given year, the number of such error events is represented by a random variable n, and the loss amount when an error occurs is represented by a random variable s. Which of the following steps is most likely the first step of loss distribution modeling (   ).

A.   Establish Binomial distribution (modeling N) and Exponential distribution (modeling

S).

B.   Establish Poisson distribution (modeling S) and lognormal distribution (modeling N).

C.   Modeling lognormal distribution (Modeling N) and Weibull Distribution (Modeling S).

D.   Modeling Poisson distribution (Modeling N) and Negative Binomial Distribution (Modeling S).

Answer: A

19.   The owner's equity in the following options is (   ).

A.   Transactional financial assets

B.   Dividends payable

C.   Undistributed profits

D.   Yield

Answer: C

20.   An institution wants to know the average wage of first-tier cities, so it conducts sampling statistics. The average number of samples is $2,864, and the standard error is $349. Under the confidence interval of 99%, the point estimate and interval estimate of the average wage in first-tier cities are (   ).

A. $2,864; [$1,964，$3,764]

B. $3,213; [$2,288，$3,440]

C. $2,515; [$1,965，$3,763]

D. $2,864; [$2,288，$3,440]

Answer: A