53 INTRODUCTION TO RISK MANAGEMENT

1. Risk management within an organization should most appropriately consider:
   (A) internal risks independently of external risks.
   (B) financial risks independently of non-financial risks.
   (C) interactions among different risks.

2. Measures of interest rate sensitivity least likely include:
   (A) beta.
   (B) duration.
   (C) rho.

3. Which of the following statements about an organization's risk tolerance is most accurate?
   (A) An organization with low risk tolerance should take steps to reduce each of the risks it identifies.
   (B) Risk tolerance is the degree to which an organization is able to bear the various risks that may arise from outside the organization.
   (C) The financial strength of an organization is one of the factors it should consider when determining its risk tolerance.

4. The first step in managing an organization's risks should be to determine:
   (A) the organization's risk tolerance.
   (B) the organization's risk exposures.
   (C) a risk budget for the organization.

5. Examples of financial risks include:
   (A) credit risk, market risk, and liquidity risk.
   (B) market risk, liquidity risk, and tax risk.
   (C) solvency risk, credit risk, and market risk.

6. Operational risk is most accurately described as the risk that:
   (A) extreme events are more likely than managers have assumed.
   (B) the organization will run out of operating cash.
   (C) human error or faulty processes will cause losses.

7. Features of a risk management framework least likely include:
   (A) establishing risk governance policies and processes.
   (B) disciplining managers who exceed their risk budgets.
   (C) monitoring the organization's risk exposures.

8. An objective of the risk management process is to:
   (A) eliminate the risks faced by an organization.
   (B) identify the risks faced by an organization.
   (C) minimize the risks faced by an organization.

9. Value-at-Risk (VaR) and Conditional VaR are best described as measures of:
   (A) liquidity risk.
   (B) model risk.
   (C) tail risk.

10. A portfolio manager uses a computer model to estimate the effect on a portfolio's value from both a 3% increase in interest rates and a 5% depreciation in the euro relative to the yen. The manager is most accurately described as engaging in:
   (A) scenario analysis.
   (B) stress testing.
   (C) risk shifting.

11. Buying insurance is best described as a method for an organization to:
   (A) prevent a risk.
   (B) shift a risk.
   (C) transfer a risk.

12. Which of the following risks is most accurately classified as a non-financial risk?
   (A) Liquidity risk.
   (B) Model risk.
   (C) Credit risk.