88 INTRODUCTION TO RISK MANAGEMENT

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

2. 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

3. 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.

4. 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.

5. 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.

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

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

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

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

10. 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.

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

12. Risk governance is best described as:
   (A) determining an organization's risk tolerance.
   (B) allocating an organization's resources by considering their risk characteristics.
   (C) senior management's oversight of the organization's risk management.