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Exam : 8007

Title : Exam II: Mathematical Foundations of Risk Measurement - 2015 Edition

Version : DEMO

1. The bisection method can be used for solving f(x)=0 for a unique solution of x, when

A. The function f(x) is continuous and monotonic

- B. The function f(x) is differentiable
- C. The function f(x) is differentiable and we have an explicit expression for the derivative
- D. The function f(x) is continuous

Answer: A

2.Consider a binomial lattice where a security price S moves up by a factor u with probability p, or down by a factor d with probability 1 - p.

If we set d > 1/u then which of the following will be TRUE?

- A. The lattice will not recombine
- B. The probability of an up move will not be constant
- C. There will always be a downward drift in the lattice
- D. None of the above

Answer: D

3.Consider an investment fund with the following annual return rates over 8 years: +6%, -6%, +12%, -12%, +3%, -3%, +9%, -9%.

What can you say about the annual geometric and arithmetic mean returns of this investment fund?

- A. The arithmetic mean return is zero and the geometric mean return is negative
- B. The arithmetic mean return is negative and the geometric mean return is zero
- C. The arithmetic mean return is equal to the geometric mean return
- D. None of the above

Answer: A

4.Which of the following statements concerning class intervals used for grouping of data is correct? When grouping data, attention must be paid to the following with regards to class intervals:

1. Class intervals should not overlap

2. Class intervals should be of equal size unless there is a specific need to highlight data within a specific subgroup

3. The class intervals should be large enough so that they not obscure interesting variation within the group

A. Statements 2 and 3 are correct

- B. Statements 1 and 2 are correct
- C. All three statements are correct
- D. Statements 1 and 3 are correct

Answer: B

5.An underlying asset price is at 100, its annual volatility is 25% and the risk free interest rate is 5%. A European call option has a strike of 85 and a maturity of 40 days. Its Black-Scholes price is 15.52. The options sensitivities are: delta = 0.98; gamma = 0.006 and vega = 1.55.

What is the delta-gamma-vega approximation to the new option price when the underlying asset price changes to 105 and the volatility changes to 28%?

A. 17.33

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B. 18.75 C. 19.23 D. 20.54 **Answer:** D