



Name:

Enrolment No:

UPES

End Semester Examination, May 2024

Course: Basel Accords

Program: Integrated B.Com-MBA

Course Code: FINC3060

Semester: II

Time : 03 hrs.

Max. Marks: 100

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q 1	What does VaR measure? A) The average return of an investment over a specific time horizon B) The guaranteed profit in a best-case scenario C) The maximum potential loss of a portfolio over a given time period, at a specific confidence level D) The historical volatility of a financial asset	2	CO1
Q2.	Which financial institution primarily acts as an intermediary between savers and borrowers? A) Hedge fund B) Investment bank C) Central bank D) Commercial bank	2	CO1
Q3.	Which financial product provides investors with exposure to a diversified pool of mortgages? A) Corporate bonds B) Treasury bonds C) Mortgage-backed securities D) Municipal bonds	2	CO1
Q4.	Which risk type is associated with the potential for losses due to inadequate or failed internal processes, systems, or people? A) Credit risk B) Market risk C) Operational risk D) Liquidity risk	2	CO1
Q5.	The GARP Code of Conduct primarily emphasizes: A) Transparency in financial markets B) Ethical behavior in risk management C) Maximizing shareholder wealth D) Regulatory compliance	2	CO1
Q6.	A financial derivative that allows the holder to buy or sell an underlying asset at a predetermined price on a specified date is called a:	2	CO1

	A) Forward contract B) Swap C) Option D) Future contract		
Q7.	Which risk management tool evaluates the potential impact of extreme events on a portfolio? A) Option valuation B) Expected shortfall (ES) C) VaR mapping D) Fixed income valuation	2	CO1
Q8.	The Capital Asset Pricing Model (CAPM) is primarily used to: A) Measure market risk B) Assess operational risk C) Determine credit risk D) Estimate liquidity risk	2	CO1
Q9.	Which financial market structure involves trading directly between parties without the involvement of an exchange? A) OTC markets B) Exchange markets C) Derivatives markets D) Spot markets	2	CO1
Q10.	Which Basel accord introduced capital requirements for operational risk? A) Basel I B) Basel II C) Basel 2.5 D) Basel III	2	CO1
SECTION B 4Qx5M= 20 Marks			
Q11.	Differentiate between risk assessment, risk measurement, and risk management. How do these stages work together?	5	CO2
Q12.	Discuss why RAROC is important for financial institutions and how it helps them make informed decisions about investments and capital allocation?	5	CO2
Q13.	Distinguish between expected and unexpected loss in context of credit risk.	5	CO2
Q14.	Explain the concept of mortgage-backed securities (MBS) and discuss their role in the financial markets.	5	CO2
SECTION-C 3Qx10M=30 Marks			
Q15.	Analyze the concept of credit risk and its significance for financial institutions and discuss methods for evaluating and managing credit risk effectively. Or	10	CO3

	How would you outline the methodology used to determine the value of futures and forwards contracts at: a) Initiation b) During the life c) Expiration											
Q16.	How do the structures and mechanics of over the counter (OTC) markets differ from those of exchange-traded markets? Compare and contrast the key features of OTC markets and exchange-traded markets	10	CO3									
Q17.	XYZ Corporation, a multinational company, operates in various countries and conducts transactions in multiple currencies. Describe the different types of foreign exchange risk exposure that XYZ Corporation might face in its operations. Provide examples to illustrate each type of exposure.	10	CO4									
SECTION-D 2Qx15M= 30 Marks												
Q18	<p>How have the Basel Accords evolved to address deficiencies within the banking system, and what are the underlying purposes behind their establishment? Analyze the distinct objectives of Basel I, Basel II, and Basel III, elucidating their progression and adaptation over time in response to emerging challenges within the banking sector.</p> <p>Or</p> <p>Company X and Y have been offered the following rates per annum on a Rs. 1,00,00,000 5-year loan:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Fixed Rate</th> <th>Floating Rate</th> </tr> </thead> <tbody> <tr> <td>Company X</td> <td>6%</td> <td>LIBOR + 0.1%</td> </tr> <tr> <td>Company Y</td> <td>7.4%</td> <td>LIBOR + 0.6%</td> </tr> </tbody> </table> <p>Company X requires a floating-rate loan. Company Y requires a fixed-rate loan. Design a swap that will equally be attractive to both the companies.</p>		Fixed Rate	Floating Rate	Company X	6%	LIBOR + 0.1%	Company Y	7.4%	LIBOR + 0.6%	15	CO4
	Fixed Rate	Floating Rate										
Company X	6%	LIBOR + 0.1%										
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Q19	The investor is looking to buy XYZ Inc.'s stock that has a beta (β) of 1.5. The benchmark market portfolio is anticipated to give a return of 10% this year and the risk-free rate is 2%. Calculate the expected investment return. Also, Portfolio Z and Portfolio X returned 19% and 20% respectively. Portfolios Z and X had betas (β) of 1.30 and 1.50, respectively. Assume the risk-free rate (treasury bills) is 2.0%. Calculate Treynor ratio of each portfolio.	15	CO4									