

# CA FINAL

# RISK MANAGEMENT

# IN-HOUSE

# CASE STUDY SERIES

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**Case Study 8 Answers**

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## Ford Credit

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### **Strengths:**

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The sensitivity analysis reported by Ford is useful in highlighting the possible adverse effect of a 1 percent increase in interest rates on Ford Credit's net income. It also is based on an objective measure of interest rate risk, duration.

### **Weaknesses:**

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The sensitivity analysis reported in the table assumes that interest rate changes are instantaneous, small, parallel shifts in the yield curve. From a risk management perspective, one would have a special interest in the effects of larger interest rate changes, including major discontinuities in interest rates. The inclusion of value at risk would help fill this gap in the analysis. Furthermore, changes in the yield curve other than parallel shifts should be examined, such as nonparallel shifts (twists) in the yield curve. The text mentions the recommendation of the Derivatives Policy Group to examine both parallel shifts and twists of the yield curve.