

# **Risk Management**

## **Multiple Choice Questions**

---

### **Question 1.**

Consider the following example : "A competitor's pending product launch muddies the future of the business and the market" This relates to .

- A.** Uncertainty
- B.** Ambiguity
- C.** Complexity
- D.** Volatility

### **Question 2.**

Which one of the following statements best describes the concept of risk in finance?

- A.** Any factor that may cause the timing and amount of cash flows generated by a business to differ from the estimated figures, including the possibility of financial loss
- B.** The possibility of making a financial loss in the future
- C.** The possibility of making a financial gain in the future
- D.** The probability of loss

### **Question 3.**

.....is defined as the probability of instantaneous or near-instantaneous loss & can be due to flash crashes, other market crises, malicious activity by selected market participants & other events.

- A.** Market risk
- B.** Audit risk
- C.** Real-time risk
- D.** Economic risk

#### **Question 4.**

Which of the below statement is not true?

- A.** Risk and reward are two sides of the same coin
- B.** Taking more risk does not necessarily mean that you will get more return
- C.** All uncertainties are risk but all risks are not uncertainty.
- D.** Risk may be an uncertain event or an uncertain condition.

#### **Question 5.**

BT Motors and New Atlas bank are two parties of a derivative contract to hedge exchange rate risk. At the end of the contract, BT Motors has a net loss position of \$6.9 million but refused to pay the entire amount. Which of the following sub-types of credit risk best describes this situation?

- A.** Bankruptcy risk
- B.** General market Risk
- C.** Settlement risk
- D.** Default risk

#### **Question 6.**

If a firm is characterized by low ROI, then this risk relates to which corporate function?

- A.** Treasury
- B.** Information Technology
- C.** Sales and marketing
- D.** Human resource

#### **Question 7.**

You are doing business in many countries, all with unique regulatory environments, tariffs, and cultural values. This is an example of :

- A.** Complexity
- B.** Ambiguity
- C.** certainty
- D.** None of the above

### Question 8.

Distinguish between systematic and specific risks.

- A. Systematic risk refers to the risks borne by the entire economy as a whole, while specific risks are borne by a particular company or line of business.
- B. Systematic risks are risks borne by a single entity while specific risks are borne by the economy as a whole.
- C. Systematic risks are quantifiable while specific risks are non-quantifiable.
- D. Systematic risk can be minimized with diversification.

**Note :** Please do not confuse systematic risk with systemic risk. Systemic risk is the possibility that an event at the company level could trigger severe instability or collapse an entire industry or economy. Systemic risk was a major contributor to the financial crisis of 2008. Companies considered to be a systemic risk are called "too big to fail."

### Question 9.

Which of the following statements are incorrect?

- A. The concept of risk-based maintenance is an advanced form of Reliability Centered Maintenance.
- B. Risk management is defined as coordinated activities to direct and control an organization with regard to risk
- C. Compliance Risks are associated with the management and protection of knowledge and information within the enterprise.
- D. Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events.

### Question 10.

Risk is defined as the possibility that an event will occur, which will impact an organization's achievement of objectives, this statement is given by?

- A. ISO 31000

- B. Institute of Internal Auditors
- C. BASEL II
- D. COBIT

### **Question 11.**

Noticeable failure of parts of the transformation effort threatening the success of certain goal can be classified under

- A. M
- B. L
- C. E
- D. H

### **Question 12.**

The risk of over/understanding of revenue 'without considering any internal control indicates .....& the risk of over /understatement of revenue with considering any internal control indicates.....

- A. Residual risk, inherent risk
- B. Control risk, inherent risk
- C. Inherent risk, residual risk
- D. Inherent risk, control risk

### **Question 13.**

Which of the following statements best explains the relationship between risk and reward?

- A. As risk increases, reward decreases.
- B. As risk decreases, reward increases
- C. As risk increases, reward generally increases.
- D. The relation between risk and reward depends on the financial product.

### **Question 14.**

Consider the following example : "You decide to move into immature or emerging markets or to launch products outside your core competencies, without conducting market research." This relates to

- A.** Uncertainty
- B.** Ambiguity
- C.** Complexity
- D.** Volatility

### **Question 15.**

Which of the following statement is correct .

- A.** Extremely high risk (E) is one of the risk assessment categories as per ICAI guide on risk based internal audit.
- B.** Open group has classified effect into 5 scales
- C.** Uncertainty is unpredictable and has uncontrollable outcomes
- D.** Silo approach to risk management has been accepted as one of the best practices in the area of risk management.

### **Question 16.**

Inefficiency and non-effectiveness of operations, financial reporting & Noncompliance with laws & regulation are the categories of risks categorized by.....

- A.** International organization for standardization
- B.** BASEL III
- C.** COSO
- D.** None of the above

### **Question 17.**

Which of the following combinations correctly matches a quantifiable risk with a non-quantifiable (qualitative) risk?

- A.** Quantifiable: Interest rate risk; Non-quantifiable: Default risk
- B.** Quantifiable: Civil war; Non-quantifiable: Liquidity risk
- C.** Quantifiable: Equity price risk; Non quantifiable; Risk of terrorist attack
- D.** Quantifiable: Civil war; Non-quantifiable: Settlement risk

### **Question 18.**

If a firm fails to Digitize/ automate processes, then this risk relates to which corporate function?

- A.** New product development
- B.** Finance and Accounts
- C.** Operations
- D.** Human resource

### **Question 19.**

Choose the incorrect option?

- A.** Corporate objectives are usually fully stated or well defined by most corporates.
- B.** Statistical techniques used in insurance cannot be applied to speculative risks.
- C.** Internal or external crime that takes advantage of gaps in processes for unlawful gain, i.e. fraud
- D.** Real-time risk is defined as the probability of instantaneous or near-instantaneous loss, and can be due to flash crashes, other market crises, malicious activity by selected market participants and other events.

### **Question 20.**

Which of the following best describes enterprise-wide risk management?

- A.** Applying risk management within individual departments on a piecemeal basis
- B.** Risk management that includes all major departments in a company.
- C.** A structured and consistent set of principles or risk management that are applied across the whole of a company
- D.** Risk management that encompasses all business units

### **Question 21.**

Equity price risk is the type of market risk that refers to the variability in the prices of equity or stocks. Equity price risk further subdivides into general market risk, which is undiversifiable risk, and specific risk i.e., diversifiable. Which of the following the most likely a type of specific risk?

- A.** The risk of changes in the consumer price index (CPI)
- B.** The risk of change in the aggregate demand of a specific sector
- C.** The risk of strategic weaknesses in a business
- D.** The risk of changes in tax rates

### **Question 22.**

The probability & consequences of the event to occur in most of the circumstances with given risk score 9 is as follows:

- A.** Remote, insignificant
- B.** Almost certain, catastrophic
- C.** Possible, moderate
- D.** Likely, major

### **Question 23.**

Which of the following is incorrect about VUCA?

- A.** Volatility (V): the nature and dynamics of change, and the nature and speed of change forces and change catalysts.
- B.** Uncertainty (U) : Despite a lack of other information, the event's basic cause and effect are unknown. Change is impossible and a given.
- C.** Complexity(C): the multiplex of forces, the confounding of issues, no cause-and-effect chain and confusion that surrounds organization.
- D.** Ambiguity (A): Causal relationships are unclear as precedent do not exists - we face unknown unknowns.

### **Question 24.**

Loss of property due to fire is?

- A.** Threat
- B.** Opportunity
- C.** Weakness
- D.** Risk

### **Question 25.**

USD \$5440 million loss incurred within 30 minutes by Knight Capital Group (KCG) on August 1, 2012, is .....

- A.** Real-time risk
- B.** Market risk
- C.** Economic risk
- D.** Information security risk



### **Question 26.**

Which of the following is not a type of market risk?

- A.** Interest rate risk
- B.** Foreign exchange risk
- C.** Equity price risk
- D.** Liquidity Risk

### **Question 27.**

After the United Kingdom voted to leave the European Union in 2016, the British pound weakened against other currencies like the U.S dollar and the Chinese Yuan. Which one of the following risks best explains this observation?

- A.** Interest rate risk
- B.** Foreign exchange risk
- C.** Reputation risk
- D.** Equity risk

### **Question 28.**

In.....,risk is defined as "The potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the organization."

- A.** Information security
- B.** OHSAS
- C.** BASEL III
- D.** BASEL II

### **Question 29.**

Which of the following option is incorrect?

- A.** Credit risk relates to default and downgrade of counter party.
- B.** Liquidity risk relates to mishandling of liquid chemicals in a factory.
- C.** Liquidity risk arises due to mismatch in the timing of cash flow.
- D.** Interest rate risk stems from movement in market factors such as interest rates , credit spreads which impacts investment, income and the value of portfolio.

### **Question 30.**

Uncertainty is immeasurable, not possible to calculate, while the risk is measurable as stated by.....

- A.** COSO
- B.** COBIT
- C.** Paul Hopkins
- D.** Frank Knight

### **Question 31.**

Which of the following decision is often skipped (overlooked i.e., fails to get identified) by the management?

- A.** High Impact – High Probability
- B.** High Impact- Low Probability
- C.** Low Impact – High Probability
- D.** Low Impact – Low Probability

### **Question 32.**

The objective of internal control is to reduce the ..... & keep the..... within the organization.....

- A.** Residual risk, inherent risk, risk capacity
- B.** Residual risk, inherent risk, risk appetite
- C.** Inherent risk, residual risk, risk capacity
- D.** Inherent risk, residual risk, risk appetite

### **Question 33.**

Tohonday, a motor vehicle production company, has historically channeled most of its earnings and spare cash into short-term government bonds maturing in less than a year. The board wishes to change its investment policy substantially and intends to tap the riskier but more profitable long-term corporate bond market. Assuming you're the risk manager for the company, which of the following risks would be of utmost (immediate) concern?

- A.** Trading liquidity risk
- B.** Funding liquidity risk
- C.** Interest rate risk
- D.** Market risk

### **Question 34.**

Likelihood score 3 as per ICAI Guidance note on RBIA means :

- A.** Unlikely
- B.** Remote
- C.** Possible
- D.** Likely

### **Question 35.**

Decide, out of the following which one is not an insurable risk

i) Particular risk, ii) dynamic risk, iii) speculative risk, iv) fundamental risk

- A.** ii), iii) & iv)
- B.** ii) & iii)
- C.** i), ii), iii) & iv)
- D.** i) & ii)

### **Question 36.**

Which of the following is the correct definition of risk management in the context of financial markets?

- A.** The practice of creating economic value by identifying and investing in risky projects that could earn a profit
- B.** The practice of avoiding an extremely risky financial undertaking to prevent a loss
- C.** The practice of creating economic value by identifying and measuring risks, and formulating robust plans to address and manage these risks
- D.** Setting risk limits beyond which an entity should not operate

### **Question 37.**

Which of the following is incorrect mapping done for a corporate function to the risk area?

- A.** Treasury .....> Low returns on investments
- B.** Finance & accounts .....> unreliable financial statement
- C.** Information technology .....> hacking & unauthorized access
- D.** None of the above

### **Question 38.**

Which of the following factor is uncontrollable?

- A.** Compliance with regulatory changes
- B.** Labour strikes
- C.** Machine failure
- D.** Attrition of people

### **Question 39.**

Enterprise Risk Management defines Risk is an event which can prevent, hinder, and fail to further or otherwise obstruct the enterprise in achieving its objectives. The focus of this definition is on-

- A.** Disaster recovery planning
- B.** Operational risk

- C. Business risk
- D. Governance Risk

### **Question 40.**

Financial risk is the risk that cash flow of an issuer will not be adequate to meet its financial obligations. This definition is given by-

- A. Paul Hopkins
- B. NASDAQ
- C. ISO 31000
- D. BASEL II

### **Question 41.**

Risk is the combination of the probability of an event and its consequence. Consequences can range from positive to negative.

- A. ERM
- B. Institute of Risk Management (IRM)
- C. CIMA Official Terminology
- D. ISO Guide 73 ISO 31000

### **Question 42.**

Risk is an unwanted subset of the set of uncertain outcomes is given by

- A. Douglas Hubbard
- B. Cornelius Keating
- C. Paul Hopkins
- D. Thomas S. Coleman

### **Question 43.**

The concept of is closer to the concept of Risk perception

- A. Inherent Risk
- B. Risk grading
- C. Cognitive psychology
- D. Emotional Intelligence

### **Question 44.**

Risk is derived from the word

- A.** Risco
- B.** Risicare
- C.** Risque
- D.** All of the above

### **Question 45.**

Which authority defines the term "at risk"

- A.** Theodore Roosevelt
- B.** Oxford English dictionary
- C.** CIMA Official terminology
- D.** Thomas S. Coleman