# Reading 40: Risk Management: An Introduction

## Question #1 of 14

Question ID: 598985

Which of the following statements about an organization's risk tolerance is *most accurate*?

**A)** Risk tolerance is the degree to which an organization is able to bear the various risks that may arise from outside the organization.

**B)** An organization with low risk tolerance should take steps to reduce each of the risks it identifies.

**C)** The financial strength of an organization is one of the factors it should consider when determining its risk tolerance.

## Question #2 of 14

Question ID: 598993

Value-at-Risk (VaR) and Conditional VaR are best described as measures of:

**A)** model risk.

**B)** liquidity risk.

**C)** tail risk.

## Question #3 of 14

Question ID: 598983

The first step in managing an organization's risks should be to determine:

**A)** a risk budget for the organization.

**B)** the organization's risk tolerance.

**C)** the organization's risk exposures.

## Question #4 of 14

Question ID: 604669

The risk of losses caused by human error or faulty processes within an organization is *most accurately* described as:

**A)** model risk.

**B)** solvency risk.

**C)** operational risk.

## Question #5 of 14

Question ID: 598986

An organization's risk budgeting process is *least likely* to:

**A)** limit the organization's exposures to the equity, fixed income, and commodity markets.

**B)** determine whether the organization needs to purchase additional insurance.

**C)** use specific metrics to ensure the organization's allocation of risks remains within its overall risk tolerance.

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## Question #6 of 14

Question ID: 598987

Risk management within an organization should *most appropriately* consider:

**A)** financial risks independently of non-financial risks.

**B)** interactions among different risks.

**C)** internal risks independently of external risks.

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## Question #7 of 14

Question ID: 598994

Measures of interest rate sensitivity *least likely* include:

**A)** beta.

**B)** duration.

**C)** rho.

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## Question #8 of 14

Question ID: 598989

Examples of financial risks include:

**A)** solvency risk, credit risk, and market risk.

**B)** market risk, liquidity risk, and tax risk.

**C)** credit risk, market risk, and liquidity risk.

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## Question #9 of 14

Question ID: 598990

Which of the following risks is *most accurately* classified as a non-financial risk?

**A)** Credit risk.

**B)** Liquidity risk.

**C)** Model risk.

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## Question #10 of 14

Question ID: 598984

Which of the following is *least likely* to contribute to effective risk governance?

**A)** An organization should identify its overall risk tolerance and establish a framework for oversight of risk management.

**B)** Decision-makers throughout an organization should consider risk governance a responsibility.

**C)** The risks an organization chooses to pursue, limit, or avoid should reflect the overall goals of the organization.

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## Question #11 of 14

Question ID: 598991

Buying insurance is *best* described as a method for an organization to:

**A)** prevent a risk.

**B)** shift a risk.

**C)** transfer a risk.

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## Question #12 of 14

Question ID: 598992

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)** risk shifting.

**B)** stress testing.

**C)** scenario analysis.

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## Question #13 of 14

Question ID: 598981

An objective of the risk management process is to:

**A)** minimize the risks faced by an organization.

**B)** eliminate the risks faced by an organization.

**C)** identify the risks faced by an organization.

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## Question #14 of 14

Question ID: 598982

Features of a risk management framework *least likely* include:

**A)** taking corrective actions against employees who exceed their risk budgets.

**B)** establishing risk governance policies and processes.

**C)** monitoring the organization's risk exposures.