DO NOT REMOVE THIS QUESTION PAPER FROM THE EXAMINATION HALL

UNIVERSITY OF LONDON

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

MSc Examination
MBA Examination
Postgraduate Diploma Examination
for External Students

91DFMC223
91DFMC323

FINANCE (BANKING)
FINANCE (ECONOMIC POLICY)
FINANCE (FINANCIAL SECTOR MANAGEMENT)
FINANCE (QUANTITATIVE FINANCE)

Risk Management: Principles and Applications

Specimen Examination

This is a specimen examination paper designed to show you the type of examination you will have at the end of this module. The number of questions and the structure of the examination will be the same, but the wording and requirements of each question will be different.

The examination must be completed in **THREE** hours.

Answer **THREE** questions.

The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between three questions.

The examiners wish to see evidence of your ability to use technical models and of your ability to critically discuss their mechanisms and application.

Candidates may use their own electronic calculators in this examination provided they cannot store text; the make and type of calculator **MUST BE STATED CLEARLY** on the front of the answer book.

PLEASE TURN OVER

Answer **THREE** questions.

1. Clearly explain the assumptions behind the mean-variance approach to the analysis of financial portfolios. How can this approach be applied to risk management?

2. Explain what is meant by the parameter *beta* of a financial security. How can *beta* be estimated?

3. What is the difference between spot and forward rates? Use the term structure of interest rates to explain how they could be related.

4. Discuss the main strategies for risk hedging and speculation in futures markets.

5. Examine the risk exposure properties and the profit potential of option contracts. Illustrate how options can be combined to obtain synthetic futures contracts.

6. What is meant by delta hedging? Explain why it can be important for the risk management of equity portfolios.

7. Define and discuss the main approaches for the evaluation of the Value at Risk of a financial portfolio.

8. Explain what is meant by credit migration. Discuss **one** methodology to analyse the changes in the value of a portfolio of loans or bonds over a given time horizon.

[END OF EXAMINATION]