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Question 1

Question Type: MultipleChoice

Let E(X) = 1, E(Y) = 3, Corr(X, Y) = -0.2, E(X2) = 10 and E(Y2) = 13. Find the covariance between X and Y

Options:

A- -2.8

B- 1.3

C- -1.2

D- None of the above

Answer:

C

Question 2

Question Type: MultipleChoice

There are two portfolios with no overlapping of stocks or bonds. Portfolio 1 has 6 stocks and 6 bonds. Portfolio 2 has 4 stocks and 8 bonds. If we randomly select one stock, what is the probability that it came from Portfolio1?

Options:

A- 0.3

B- 0.5

C- 0.6

D- None of these

Answer:

C

Question 3

Question Type: **MultipleChoice**

If A and B are two events with P(A) = 1/4, P(B) = 1/3 and P(A intersection B) =1/5, what is P(Bc | Ac) i.e. the probability of the complement of B when the complement of A is given?

Options:

A- 12/29

B- 37/45

C- 3/4

D- None of these

Answer:

B

Question 4

Question Type: MultipleChoice

An operational risk analyst models the occurrence of computer failures as a Poisson process with an arrival rate of 2 events per year. According to this model, what is the probability of zero failures in one year?

Options:

A- 0.02

B- 0.14

C- 0.25

D- 0.50

Answer:

B

Question 5

Question Type: MultipleChoice

Let f(x) = c for x in [0,4] and 0 for other values of x.

What is the value of the constant c that makes f(x) a probability density function; and what if f(x) = cx for x in [0,4]?

Options:

A- 1/4 and 1/7

B- 1/7 and 1/9

C- 1/4 and 1/6

D- None of the above

Answer:

D

Question 6

Question Type: **MultipleChoice**

An asset price S is lognormally distributed if:

Options:

A- the change in price (dS) is normally distributed

B- 1/S is normally distributed

C- ln(dS/S) is normally distributed

D- ln(1+dS/S) is normally distributed

Answer:

D

Question 7

Question Type: MultipleChoice

Assume that 40% of all financial organizations investigated by authorities turn out to be fraudulent.

What is the probability of randomly investigating 2 different organizations and finding that neither is fraudulent; and what is the probability of finding exactly one being fraudulent?

Options:

A- 2/5 and 1/2

B- 2/5 and 3/5

C- 1/3 and 8/17

D- 9/25 and 12/25

Answer:

D

Question 8

Question Type: MultipleChoice

In a portfolio there are 7 bonds: 2 AAA Corporate bonds, 2 AAA Agency bonds, 1 AA Corporate and 2 AA Agency bonds. By an unexplained characteristic the probability of any specific AAA bond outperforming the others is twice the probability of any specific AA bond outperforming the others. What is the probability that an AA bond or a Corporate bond outperforms all of the others?

Options:

A- 5/7

B- 8/11

C- 6/11

D- None of these

Answer:

D

Question 9

Question Type: MultipleChoice

Your stockbroker randomly recommends stocks to his clients from a tip sheet he is given each day. Today, his tip sheet has 3 common stocks and 5 preferred stocks from Asian companies and 3 common stocks and 5 preferred stocks from European companies. What is the probability that he will recommend a common stock AND/OR a European stock to you when you call and ask for one stock to buy today?

Options:

A- 11/16

B- 7/8

C- 9/16

D- None of these

Answer:

A

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