

Credit Risk Management Practice Test Questions and Answers

1. What is a CDX index?

- A) A stock index focused on credit card companies
- B) A standardized CDS index referencing a basket of North American corporate credits
- C) A risk model developed by ISDA for OTC derivatives
- D) A credit scoring benchmark published by the Federal Reserve

2. What is a 'basket CDS'?

- A) A CDS on a single investment-grade borrower
- B) A CDS that references multiple names, with triggers depending on the number of defaults in the basket
- C) A CDS priced using a basket of commodity indices
- D) A CDS traded on an exchange rather than OTC

3. What does the CDS spread represent?

- A) The difference between bid and ask prices for the reference bond
- B) The annual premium (in basis points) paid by the protection buyer as a percentage of notional
- C) The credit rating difference between two reference entities
- D) The discount rate used to value the reference bond

4. What is a Credit Default Swap (CDS)?

- A) An exchange-traded equity option on a bank's stock
- B) A bilateral contract where the protection buyer pays a premium to hedge against a credit event on a reference entity
- C) A bond with floating-rate coupons tied to SOFR
- D) A loan participation agreement between two banks

Answers: 1-B 2-B 3-B 4-B

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