

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Study more at iibf.store • YouTube: Learning Sessions • WhatsApp your course name to 8360944207 for daily updates

20 True or False

Decide, then check the answer and reason below each statement.

Question 1

VaR is a statistical estimate of the maximum expected loss on a portfolio over a defined holding period at a given confidence level, under normal market conditions.

TRUE

This is the standard definition of Value at Risk used in market risk management.

Question 2

A one-day 99% VaR of Rs 5 crore implies there is only a 1% chance the portfolio loses more than Rs 5 crore in a single day.

TRUE

This is exactly how a VaR statement at a given confidence level is interpreted.

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Question 3

VaR tells you the absolute worst-case loss a portfolio can ever suffer.

FALSE

VaR only gives a loss threshold at a confidence level and says nothing about losses beyond it.

Question 4

Expected Shortfall, also called Conditional VaR, measures the average loss in the tail beyond the VaR threshold.

TRUE

Expected Shortfall captures the severity of losses that VaR alone does not describe.

Question 5

The Variance-Covariance method makes no assumption about the distribution of portfolio returns.

FALSE

The Variance-Covariance method specifically assumes returns are normally distributed.

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Question 6

Historical Simulation re-prices a portfolio using actual historical return data.

TRUE

This method needs no distribution assumption because it uses observed past returns.

Question 7

Monte Carlo Simulation is the least computationally demanding of the three standard VaR methods.

FALSE

Monte Carlo Simulation is the most computationally heavy of the three methods, not the least.

Question 8

A higher confidence level, such as 99%, produces a larger and more conservative VaR than a 95% confidence level.

TRUE

Raising the confidence level widens the loss threshold the VaR figure must cover.

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Question 9

The square-root-of-time rule scales a 1-day VaR to 10 days by multiplying it by 10.

FALSE

The rule multiplies by the square root of 10, approximately 3.16, not by 10.

Question 10

The square-root-of-time scaling rule assumes returns are independent and identically distributed.

TRUE

This is a stated simplifying assumption behind the square-root-of-time shortcut.

Question 11

A 99% VaR is expected to be breached on roughly 2-3 trading days a year under normal statistical assumptions.

TRUE

A 1% daily breach probability works out to about 2-3 exceptions across a trading year.

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Question 12

Back-testing compares VaR estimates against forecasted future losses rather than actual profit and loss.

FALSE

Back-testing compares daily VaR against actual realized profit and loss, not forecasts.

Question 13

Basel's traffic-light approach classifies VaR models into green, amber, and red zones based on the number of exceptions.

TRUE

The zone classification depends on exceptions counted over 250 trading days.

Question 14

VaR is fully sub-additive, meaning a portfolio's VaR can never exceed the sum of its parts' individual VaRs.

FALSE

VaR can lack sub-additivity in some cases, so a portfolio's VaR can exceed the sum of its parts.

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Question 15

Under the Basel III and FRTB evolution, regulatory focus has been shifting from VaR toward Expected Shortfall.

TRUE

FRTB moves capital measurement toward Expected Shortfall to better capture tail risk.

Question 16

Stress testing has become unnecessary now that banks compute VaR on a daily basis.

FALSE

Banks still use stress testing and scenario analysis to capture extreme events VaR misses.

Question 17

A bank's middle office typically computes VaR independently and reports breaches to the risk committee.

TRUE

This independent computation and reporting is part of standard market-risk governance.

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

Question 18

The Reserve Bank of India has no role in prescribing market risk frameworks for Indian banks.

FALSE

The RBI issues master directions covering the prudential market risk framework for banks.

Question 19

CAIIB's Risk Management elective expects candidates to compare the Variance-Covariance, Historical Simulation, and Monte Carlo VaR methods.

TRUE

The syllabus tests candidates on the mechanism, strengths, and weaknesses of all three methods.

Question 20

VaR estimates are unaffected by the choice of look-back window used in historical return data.

FALSE

VaR, particularly under Historical Simulation, is sensitive to the chosen look-back window.

Keep Learning with Learning Sessions

Learning Sessions

20 True / False | Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

CAIIB - Revision - Value at Risk (VaR): Measuring Market Risk Explained for CAIIB

iibf.store

Mock tests, video classes, one-liners & PDFs — all in one portal.

YouTube: Learning Sessions

Subscribe for free daily video classes.

WhatsApp

8360944207

Send your course name for daily updates.

Learning Sessions