

2024

FRM[®]

PART II
PRACTICE EXAM I

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Introduction

The FRM Exam is a practice-oriented examination. Its questions are derived from a combination of theory, as set forth in the core readings, and “real-world” work experience. Candidates are expected to understand risk management concepts and approaches and how they would apply to a risk manager’s day-to-day activities.

The FRM Exam is also a comprehensive examination, testing a risk professional on a number of risk management concepts and approaches. It is very rare that a risk manager will be faced with an issue that can immediately be slotted into one category. In the real world, a risk manager must be able to identify any number of risk-related issues and be able to deal with them effectively.

The 2024 FRM Part II Practice Exam #1 and #2 have been developed to aid candidates in their preparation for the FRM Exam in May and November 2024. These Practice Exams are based on a sample of questions from prior FRM Exams and are suggestive of the questions that will be on the 2024 FRM Part II Exam.

The 2024 FRM Part II Practice Exam #1 contains 80 multiple-choice questions, the same number of questions that the actual 2024 FRM Exam Part II will contain. As such, this Practice Exam was designed to allow candidates to calibrate their preparedness both in terms of material and time.

The 2024 FRM Practice Exams do not necessarily cover all topics to be tested in the 2024 FRM Exam as any test samples from the universe of testable possible knowledge points. However, the questions selected for inclusion in the Practice Exams were chosen to be broadly reflective of the material assigned for 2024 as well as to represent the style of question that the FRM Committee considers appropriate based on assigned material.

For a complete list of current topics, core readings, and key learning objectives, candidates should refer to the 2024 FRM Exam Study Guide and 2024 FRM Learning Objectives.

Core readings were selected by the FRM Committee to assist candidates in their review of the subjects covered by the Exam. Questions for the FRM Exam are derived from the core readings. It is strongly suggested that candidates study these readings in depth prior to sitting for the Exam.

Suggested Use of Practice Exams:

To maximize the effectiveness of the practice exams, candidates are encouraged to follow these recommendations:

1. Plan a date and time to take the practice exam.
 - Set dates appropriately to give sufficient study/review time for the practice exam prior to the actual exam.

2. Simulate the test environment as closely as possible.
 - Take the practice exam in a quiet place.
 - Have only the practice exam, candidate answer sheet, calculator, and writing instruments (pencils, erasers) available.
 - Minimize possible distractions from other people, cell phones, televisions, etc.; put away any study material before beginning the practice exam.
 - Allocate 4 hours to complete FRM Part I Practice Exam and 4 hours to complete FRM Part II Practice Exam and keep track of your time. The actual FRM Exam Part I and FRM Exam Part II are 4 hours each.
 - Complete the entire exam and answer all questions. Points are awarded for correct answers. There is no penalty on the FRM Exam for an incorrect answer.
 - Follow the FRM calculator policy. Candidates are only allowed to bring certain types of calculators into the exam room. The only calculators authorized for use on the FRM Exam in 2024 are listed below; there will be no exceptions to this policy. You will not be allowed into the exam room with a personal calculator other than the following: Texas Instruments BA II Plus (including the BA II Plus Professional), Hewlett Packard 12C (including the HP 12C Platinum and the Anniversary Edition), Hewlett Packard 10B II, Hewlett Packard 10B II+ and Hewlett Packard 20B.

3. After completing the FRM Practice Exams
 - Calculate your score by comparing your answer sheet with the practice exam answer key.
 - Use the practice exam Answers and Explanations to better understand the correct and incorrect answers and to identify topics that require additional review. Consult referenced core readings to prepare for the exam.
 - Remember: pass/fail status for the actual exam is based on the distribution of scores from all candidates, so use your scores only to gauge your own progress and level of preparedness.

Reference Table: Let Z be a standard normal random variable.

z	P(Z<z)	z	P(Z<z)	z	P(Z<z)	z	P(Z<z)	z	P(Z<z)	z	P(Z<z)
-3	0.0013	-2.50	0.0062	-2.00	0.0228	-1.50	0.0668	-1.00	0.1587	-0.50	0.3085
-2.99	0.0014	-2.49	0.0064	-1.99	0.0233	-1.49	0.0681	-0.99	0.1611	-0.49	0.3121
-2.98	0.0014	-2.48	0.0066	-1.98	0.0239	-1.48	0.0694	-0.98	0.1635	-0.48	0.3156
-2.97	0.0015	-2.47	0.0068	-1.97	0.0244	-1.47	0.0708	-0.97	0.1660	-0.47	0.3192
-2.96	0.0015	-2.46	0.0069	-1.96	0.0250	-1.46	0.0721	-0.96	0.1685	-0.46	0.3228
-2.95	0.0016	-2.45	0.0071	-1.95	0.0256	-1.45	0.0735	-0.95	0.1711	-0.45	0.3264
-2.94	0.0016	-2.44	0.0073	-1.94	0.0262	-1.44	0.0749	-0.94	0.1736	-0.44	0.3300
-2.93	0.0017	-2.43	0.0075	-1.93	0.0268	-1.43	0.0764	-0.93	0.1762	-0.43	0.3336
-2.92	0.0018	-2.42	0.0078	-1.92	0.0274	-1.42	0.0778	-0.92	0.1788	-0.42	0.3372
-2.91	0.0018	-2.41	0.0080	-1.91	0.0281	-1.41	0.0793	-0.91	0.1814	-0.41	0.3409
-2.9	0.0019	-2.40	0.0082	-1.90	0.0287	-1.40	0.0808	-0.90	0.1841	-0.40	0.3446
-2.89	0.0019	-2.39	0.0084	-1.89	0.0294	-1.39	0.0823	-0.89	0.1867	-0.39	0.3483
-2.88	0.0020	-2.38	0.0087	-1.88	0.0301	-1.38	0.0838	-0.88	0.1894	-0.38	0.3520
-2.87	0.0021	-2.37	0.0089	-1.87	0.0307	-1.37	0.0853	-0.87	0.1922	-0.37	0.3557
-2.86	0.0021	-2.36	0.0091	-1.86	0.0314	-1.36	0.0869	-0.86	0.1949	-0.36	0.3594
-2.85	0.0022	-2.35	0.0094	-1.85	0.0322	-1.35	0.0885	-0.85	0.1977	-0.35	0.3632
-2.84	0.0023	-2.34	0.0096	-1.84	0.0329	-1.34	0.0901	-0.84	0.2005	-0.34	0.3669
-2.83	0.0023	-2.33	0.0099	-1.83	0.0336	-1.33	0.0918	-0.83	0.2033	-0.33	0.3707
-2.82	0.0024	-2.32	0.0102	-1.82	0.0344	-1.32	0.0934	-0.82	0.2061	-0.32	0.3745
-2.81	0.0025	-2.31	0.0104	-1.81	0.0351	-1.31	0.0951	-0.81	0.2090	-0.31	0.3783
-2.8	0.0026	-2.30	0.0107	-1.80	0.0359	-1.30	0.0968	-0.80	0.2119	-0.30	0.3821
-2.79	0.0026	-2.29	0.0110	-1.79	0.0367	-1.29	0.0985	-0.79	0.2148	-0.29	0.3859
-2.78	0.0027	-2.28	0.0113	-1.78	0.0375	-1.28	0.1003	-0.78	0.2177	-0.28	0.3897
-2.77	0.0028	-2.27	0.0116	-1.77	0.0384	-1.27	0.1020	-0.77	0.2206	-0.27	0.3936
-2.76	0.0029	-2.26	0.0119	-1.76	0.0392	-1.26	0.1038	-0.76	0.2236	-0.26	0.3974
-2.75	0.0030	-2.25	0.0122	-1.75	0.0401	-1.25	0.1056	-0.75	0.2266	-0.25	0.4013
-2.74	0.0031	-2.24	0.0125	-1.74	0.0409	-1.24	0.1075	-0.74	0.2296	-0.24	0.4052
-2.73	0.0032	-2.23	0.0129	-1.73	0.0418	-1.23	0.1093	-0.73	0.2327	-0.23	0.4090
-2.72	0.0033	-2.22	0.0132	-1.72	0.0427	-1.22	0.1112	-0.72	0.2358	-0.22	0.4129
-2.71	0.0034	-2.21	0.0136	-1.71	0.0436	-1.21	0.1131	-0.71	0.2389	-0.21	0.4168
-2.7	0.0035	-2.20	0.0139	-1.70	0.0446	-1.20	0.1151	-0.70	0.2420	-0.20	0.4207
-2.69	0.0036	-2.19	0.0143	-1.69	0.0455	-1.19	0.1170	-0.69	0.2451	-0.19	0.4247
-2.68	0.0037	-2.18	0.0146	-1.68	0.0465	-1.18	0.1190	-0.68	0.2483	-0.18	0.4286
-2.67	0.0038	-2.17	0.0150	-1.67	0.0475	-1.17	0.1210	-0.67	0.2514	-0.17	0.4325
-2.66	0.0039	-2.16	0.0154	-1.66	0.0485	-1.16	0.1230	-0.66	0.2546	-0.16	0.4364
-2.65	0.0040	-2.15	0.0158	-1.65	0.0495	-1.15	0.1251	-0.65	0.2578	-0.15	0.4404
-2.64	0.0041	-2.14	0.0162	-1.64	0.0505	-1.14	0.1271	-0.64	0.2611	-0.14	0.4443
-2.63	0.0043	-2.13	0.0166	-1.63	0.0516	-1.13	0.1292	-0.63	0.2643	-0.13	0.4483
-2.62	0.0044	-2.12	0.0170	-1.62	0.0526	-1.12	0.1314	-0.62	0.2676	-0.12	0.4522
-2.61	0.0045	-2.11	0.0174	-1.61	0.0537	-1.11	0.1335	-0.61	0.2709	-0.11	0.4562
-2.6	0.0047	-2.10	0.0179	-1.60	0.0548	-1.10	0.1357	-0.60	0.2743	-0.10	0.4602
-2.59	0.0048	-2.09	0.0183	-1.59	0.0559	-1.09	0.1379	-0.59	0.2776	-0.09	0.4641
-2.58	0.0049	-2.08	0.0188	-1.58	0.0571	-1.08	0.1401	-0.58	0.2810	-0.08	0.4681
-2.57	0.0051	-2.07	0.0192	-1.57	0.0582	-1.07	0.1423	-0.57	0.2843	-0.07	0.4721
-2.56	0.0052	-2.06	0.0197	-1.56	0.0594	-1.06	0.1446	-0.56	0.2877	-0.06	0.4761
-2.55	0.0054	-2.05	0.0202	-1.55	0.0606	-1.05	0.1469	-0.55	0.2912	-0.05	0.4801
-2.54	0.0055	-2.04	0.0207	-1.54	0.0618	-1.04	0.1492	-0.54	0.2946	-0.04	0.4840
-2.53	0.0057	-2.03	0.0212	-1.53	0.0630	-1.03	0.1515	-0.53	0.2981	-0.03	0.4880
-2.52	0.0059	-2.02	0.0217	-1.52	0.0643	-1.02	0.1539	-0.52	0.3015	-0.02	0.4920
-2.51	0.0060	-2.01	0.0222	-1.51	0.0655	-1.01	0.1562	-0.51	0.3050	-0.01	0.4960

Special Instructions and Definitions

1. Unless otherwise indicated, interest rates are continuously-compounded annual rates.
2. Unless otherwise indicated, option contracts are assumed to be on one unit of the underlying asset.
3. ALCO = asset-liability committee
4. bp(s) = basis point(s)
5. CAPM = capital asset pricing model
6. CCP = central counterparty or central clearing counterparty
7. CD = certificate of deposit
8. CDO = collateralized debt obligation(s)
9. CDS = credit default swap(s)
10. CEO, CFO, CIO, CRO, and CTO: chief executive, financial, investment, risk, and technology officers, respectively
11. CVA = credit value adjustment
12. ERM = enterprise risk management
13. ES = expected shortfall
14. ETF = exchange-traded fund
15. EWMA = exponentially weighted moving average
16. GARCH = generalized auto-regressive conditional heteroskedasticity
17. GDP = gross domestic product
18. IT = information technology
19. LIBOR = London interbank offered rate
20. MBS = mortgage-backed-security(securities)
21. NAV = net asset value
22. OECD = Organization for economic cooperation and development
23. OIS = overnight indexed swap
24. OTC = over-the-counter
25. RAROC = risk-adjusted return on capital
26. SOFR = secured overnight financing rate
27. VaR = value-at-risk
28. SPV = special purpose vehicle

29. The following acronyms are used for selected currencies:

Acronym	Currency
AUD	Australian dollar
BRL	Brazilian real
CAD	Canadian dollar
CHF	Swiss franc
CNY	Chinese yuan
EUR	euro

Acronym	Currency
GBP	British pound sterling
HKD	Hong Kong dollar
INR	Indian rupee
JPY	Japanese yen
SGD	Singapore dollar
USD	US dollar

2024 FRM Part II Practice Exam #1 – Candidate Answer Sheet

1.		21.		41.		61.	
2.		22.		42.		62.	
3.		23.		43.		63.	
4.		24.		44.		64.	
5.		25.		45.		65.	
6.		26.		46.		66.	
7.		27.		47.		67.	
8.		28.		48.		68.	
9.		29.		49.		69.	
10.		30.		50.		70.	
11.		31.		51.		71.	
12.		32.		52.		72.	
13.		33.		53.		73.	
14.		34.		54.		74.	
15.		35.		55.		75.	
16.		36.		56.		76.	
17.		37.		57.		77.	
18.		38.		58.		78.	
19.		39.		59.		79.	
20.		40.		60.		80.	

1. Question A risk consultant has been tasked with assessing a small bank's liquidity risk profile. While reviewing a presentation produced by the bank, the consultant comes across a list of early warning indicators used to signal potentially heightened liquidity risk. Which of the following trends should the consultant consider as the strongest warning signal for potential liquidity risk at the bank?
- A Decrease in stock price of the bank's peers but not in the stock price of the bank itself.
- B Increase in credit lines received from other financial institutions.
- C Widening spreads on the bank's issued debt and credit default swap.
- D Significant asset growth funded by an increase in stable liabilities.
2. Question A risk manager is estimating the market risk of a portfolio using both the arithmetic returns with normal distribution assumptions and the geometric returns with lognormal distribution assumptions. The manager gathers the following data on the portfolio:
- Annualized average of arithmetic returns: 16%
 - Annualized standard deviation of arithmetic returns: 27%
 - Annualized average of geometric returns: 13%
 - Annualized standard deviation of geometric returns: 29%
 - Current portfolio value: EUR 5,200,000
 - Trading days in a year: 252
- Assuming both daily arithmetic returns and daily geometric returns are serially independent, which of the following statements is correct?
- A The 1-day normal 95% VaR is equal to 1.63% and the 1-day lognormal 95% VaR is equal to 1.76%.
- B The 1-day normal 95% VaR is equal to 2.69% and the 1-day lognormal 95% VaR is equal to 2.88%.
- C The 1-day normal 95% VaR is equal to 2.74% and the 1-day lognormal 95% VaR is equal to 2.92%.
- D The 1-day normal 95% VaR is equal to 3.26% and the 1-day lognormal 95% VaR is equal to 3.48%.