

# Unit 7 - Week 5

**Course outline**

How does an NPTEL online course work?

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**Week 2**

**Week 3**

**Week 4**

**Week 5**

- Lecture 21: Overview of Asset Liability Management
- Lecture 22: Dollar Gap Analysis
- Lecture 23: Earnings Sensitivity Analysis
- Lecture 24: Duration Gap Analysis - I
- Lecture 25: Duration Gap Analysis - II
- Lecture Material
- Quiz : Assignment 5

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## Assignment 5

The due date for submitting this assignment has passed. **Due on 2020-03-04, 23:59 IST.**  
As per our records you have not submitted this assignment.

- Decisions on buying and selling the securities, how to fund banks' investments and lending activities etc. are based on:
  - Direction of interest rate
  - Compositions of assets and liabilities
  - Degree of risk
  - All of the above

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- The basic objective of Asset Liability Management is:
  - Manage interest rate risk
  - Transform interest rate risk
  - Maximization of profit
  - All of the above

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- Price risk is the potential loss from unexpected changes in interest rates which can significantly alter a bank's profitability and market value of equity.
  - True
  - False

a  
 b

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- \_\_\_\_\_ is a static measure of risk that is commonly associated with net interest income (margin) targeting
  - Net Interest Margin
  - Gap Analysis
  - Earning Sensitivity Analysis
  - Net Interest Income Analysis

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- Over a long time period almost all assets and liabilities are interest-rate sensitive
  - True
  - False

a  
 b

No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- Banks that are asset sensitive always experience an increase in their net interest income when interest rate falls and decrease in their net interest income when interest rate increases.
  - True
  - False

a  
 b

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- Bank ABC wants to reduce its liability sensitivity. Its most likely step would be to:
  - Pay premium to attract short term deposit instruments
  - Pay premium to attract longer term deposit instruments
  - Move from floating rate loans to term loans
  - Make more loans on a floating-rate basis

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- Which of the following is/are rate sensitive asset(s)?
  - Cash
  - Short term savings
  - Short term securities
  - Equity

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- Defensive asset-liability management attempts to keep the dollar gap near zero
  - True
  - False

a  
 b

No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- Consider the following information:
 

Assets (Rs. Million)	Liabilities (Rs. Million)
5 year fixed rate loan= 100	30 day deposits= 90
Interest rate= 8%	Interest rate= 6%
Total= 100	Equity= 10
	Total= 100

The Net Interest Income (NIM) is approximately closest to:

  - 6%
  - 5.4%
  - 2.6%
  - 2%

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- With respect to GAP Analysis, which of the following statement(s) is/are true?
  - Assets and liabilities with longer term maturities but with variable rate of interest are also interest rate sensitive
  - Rate sensitivity depends on the frequency of repricing
  - Short-term assets and liabilities are more rate sensitive than assets and liabilities having longer term maturities
  - All of the above

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- Which of the following statement is not true?
  - Incremental gap measures the difference between rate sensitive assets and liabilities over a more extended period than the planning horizon
  - Cumulative gap is the sum of the incremental gaps
  - If there is only one planning horizon, the incremental gap and cumulative gap are the same
  - None of the above

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- Which of the following is/are rate sensitive liabilities?
  - Equity
  - Long term loans
  - Short term loans
  - Short term savings

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- Under scenario building, typical comparison looks at \_\_\_\_\_ different interest rate scenarios, beginning with a base rate or most likely scenario
  - 3
  - 4
  - 6
  - 7

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- Which of the following is not true for bank immunization strategy?
  - Duration Gap (DGAP) should be zero
  - Bank should equate average asset duration with average liability duration
  - The value of equity remains constant as both the value of asset and liability change due to change in interest rate
  - The target variable is the economic value of equity

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- With respect to Duration Gap, interest rate and value of equity, which of the following statement(s) is/are true?
  - If interest rate will increase, the value of net worth will decline
  - For rising interest rates, the value of assets would drop more than the value of liabilities and thus value of net worth drops
  - For falling interest rates, the value of the assets would rise more than the value of liabilities and the value of net worth would increase
  - All of the above

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: d
- A bank buying short term securities and making more loans on a floating rate basis is most likely trying to:
  - Reduce asset sensitivity
  - Increase asset sensitivity
  - Reduce liability sensitivity
  - Increase liability sensitivity

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b
- Consider the data given below pertaining to bank AAA. The duration gap of the bank is closest to:
 

Asset	Value (Rs. Million)	Duration (Years)	Liabilities	Value (Rs. Million)	Duration (Years)
Cash	250,000	0.000	Certificate of deposits	300.00	2.00
Business loan	350,000	2.000	Fixed deposits	500.00	5.00
Other loan	400,000	6.000	Total liabilities	800.00	
Total Assets	1,000,000		Equity	200	
			Total	1,000	

  - 1.74
  - 0.77
  - 0
  - 1

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: c
- When book value of interest income is the target, in the process of immunization, duration of bank's equity equal to length of time horizon that the bank wishes to use in hedging net interest income
  - True
  - False

a  
 b

No, the answer is incorrect.  
Score: 0  
Accepted Answers: a
- Consider an asset sensitive bank with a positive dollar gap (RSA>RSL). If the interest rate falls from 9% to 7%, the expected change in the dollar amount of NII will be:
  - Positive
  - Negative
  - Ambiguous
  - Not enough information available

a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0  
Accepted Answers: b