1. An analyst is explaining repo funding to a new colleague. The most accurate description of a repurchase agreement is:

a. Secured short-term borrowing via a sale and an agreed repurchase
b. Unsecured short-term borrowing repaid at a floating rate
c. A permanent sale of securities with no repurchase

2. Harrowgate Securities sells a USD50,000,000 government bond to Aldgate Asset Management under a 20-day repo at a 0.40% repo rate (360-day year), with no initial margin. The repurchase price Harrowgate must pay is closest to:

a. USD50,200,000
b. USD50,011,111
c. USD50,010,959

3. In a repo, the bond used as collateral pays a coupon during the term. The coupon and the repo rate go, respectively, to:

a. The cash lender; and the cash lender as well
b. The cash lender; and the borrower
c. The cash borrower; and the lender

4. Castlebrook Bank's desk finances an USD80,000,000 bond with Brookhaven Pension Fund under a repo with a 104% initial margin. The cash Castlebrook receives (the purchase price) is closest to:

a. USD76,923,077
b. USD83,200,000
c. USD80,000,000

5. A cash lender lends cash and takes in a bond as collateral under a repo. Viewed from the lender's side, the transaction is a:

a. Special trade at the special collateral rate
b. Reverse repurchase agreement
c. General collateral repo at the funds rate

6. Quillon Capital lends cash to a dealer against a USD150,000,000 bond under a repo with a 105% initial margin. The haircut on the trade is closest to:

a. 5.00%
b. 95.24%
c. 4.76%

7. A cash lender agrees to accept any government bond of a given maturity as collateral, rather than one specific bond. The trade it has entered is a:

a. General collateral repo, at the general collateral rate
b. Special trade, at the special collateral rate
c. Triparty repo, at the central bank funds rate

8. A triparty agreement specifies a 3% haircut on the collateral pledged in a repo. The equivalent initial margin is closest to:

a. 97.00%
b. 103.09%
c. 103.00%

9. A bank finances a bond under a 103% initial margin, so the cash it receives is less than the bond's value. The uncovered portion must be:

a. Lent by the cash lender as an unsecured top-up
b. Absorbed by the triparty agent as a fee
c. Financed by the seller from other sources

10. A bank borrows USD75,000,000 under a 45-day repo at a 0.30% repo rate (360-day year). The interest it pays at maturity is closest to:

a. USD28,125
b. USD225,000
c. USD27,740

11. Midway through a repo, the collateral pledged by the cash borrower falls in price. Under the variation margin clause, the borrower most likely must:

a. Receive part of its collateral back
b. Deliver additional collateral
c. Wait until the repurchase date to act

12. Harrowgate Securities repos a USD60,000,000 bond at a 103% initial margin, a 0.50% repo rate, and a 28-day term (360-day year). The repurchase price is closest to:

a. USD58,252,427
b. USD60,023,333
c. USD58,275,081

13. An analyst lists the reasons financial firms use the repo market. Which purpose does NOT belong on that list?

a. Permanently removing an asset from the balance sheet
b. Financing the ownership of a security
c. Borrowing a security in order to sell it short

14. Seven days into a USD90,000,000 repo (102% initial margin, 0.40% repo rate), the collateral's price rises to 101.5% of face (USD91,350,000). Analyst Priya Nandakumar computes the variation margin as closest to:

a. –USD3,107,843 — overcollateralized; collateral may be released
b. –USD1,343,000 — overcollateralized; collateral may be released
c. +USD1,343,000 — undercollateralized; a margin call is due

15. A specific bond is in such high demand to borrow that its special repo rate turns negative. In that case:

a. The cash borrower pays no interest at all
b. The triparty agent absorbs the interest cost
c. The cash lender pays interest to the cash borrower

16. Quillon Capital, acting as the cash lender in a USD40,000,000 repo (0.35% rate, 25-day term, 360-day year), shorts the bond today and buys it back at settlement at 98.5% of face (USD39,400,000). Its return is closest to:

a. USD609,722
b. USD600,000
c. USD590,278

17. Quillon Capital and Castlebrook Bank move their bilateral repo to a triparty structure using a custodian. The custodian most directly:

a. Removes the counterparty credit risk between the two parties
b. Handles collateral valuation, custody, and settlement
c. Guarantees repayment if either party defaults

18. A central bank lends cash to banks against securities for a few weeks to ease a temporary reserve shortage. This use of the repo market is best described as:

a. A permanent change to the money supply via reserve requirements
b. A replacement for the outright purchase and sale of securities
c. A short-term, transitory adjustment to banking-system reserves

19. Despite a repo book being backed by high-quality collateral, its primary risk exposure is:

a. Default risk, since collateral may prove illiquid or fall in value
b. Currency risk, since repos are always cross-border
c. Inflation risk, since the repo rate is fixed

20. A risk report observes that Tarrant Securities, a mid-sized dealer, funds most of its balance sheet with overnight repo. The report warns this most exposes the firm to:

a. The risk that collateral quality reliably rises in a crisis
b. Rollover and liquidity risk if market confidence is lost
c. The risk that repo is always costlier than long-term debt