

# **PRACTICE EXAM 2**

## QUESTIONS

- 1. Congress has provided which of the following entities with the power to supervise self-regulatory organizations (SROs) as a matter of public interest?**
  - A. FINRA
  - B. MSRB
  - C. NASD
  - D. SEC
  
- 2. In a short call, the maximum gain is \_\_\_\_\_ and the maximum loss is \_\_\_\_\_.**
  - A. unlimited, the premium paid
  - B. the premium paid, unlimited
  - C. unlimited, unlimited
  - D. limited, limited
  
- 3. All but which of the following are correct regarding the Federal Open Market Committee (FOMC)?**
  - A. It consists of 12 members.
  - B. It holds 8 regularly scheduled meetings per year.
  - C. It reviews economic and financial conditions and determines the appropriate stance of monetary policy.
  - D. All of the above are correct.
  
- 4. Which of the following acts is designed to promote the informed use of consumer credit by requiring disclosures about its terms and cost to standardize the manner in which costs associated with borrowing are calculated and disclosed?**
  - A. Uniform Securities Act of 1956
  - B. Truth in Lending Act of 1968
  - C. Securities Act Amendments of 1975
  - D. Fair and Accurate Credit Transactions Act of 2003
  
- 5. Which of the following is/are correct regarding generation skipping transfers?**
  - (1) A taxable distribution occurs when a distribution is made to a skip person from a trust when a non-skip person still has an interest in the trust.
  - (2) A skip person is a related individual one or more generations younger than the transferor.
  - A. (1) only
  - B. (2) only
  - C. Both (1) and (2) are correct.
  - D. Neither (1) or (2) are correct.

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**6. Regarding the money supply, which of the following is the formula for M3?**

- A.  $M3 = M2 + \text{Coins and currency in circulation} + \text{Money held in checking accounts}$
- B.  $M3 = M2 + \text{Long-term time deposits}$
- C.  $M3 = M2 + \text{Savings accounts} + \text{Short-term time deposits}$
- D.  $M3 = M2 - M1$

**7. Delta Corporation has retained earnings of \$100,000, and they plan to use the funds to either invest in common stock or hire two new employees. Assuming these are mutually exclusive events, which of the following refers to the potential benefit that is lost by choosing one of these options over the other?**

- A. Budget constraint
- B. Opportunity cost
- C. Production-possibility frontier
- D. Prospect theory

**8. A special catch-up provision is permitted in 403(b) plans for employees with at least \_\_\_\_\_ of service who have not made contributions and are employed by universities.**

- A. 5 years
- B. 10 years
- C. 15 years
- D. 20 years

**9. Which of the following describes the maturities of Treasury bills, Treasury notes, and Treasury bonds?**

- A. Treasury notes have maturities of 10 years or more.
- B. Treasury bills have maturities of 1 year or more.
- C. Treasury bonds have maturities greater than 10 years.
- D. All of the above are correct.

**10. Jim, Mike, and Paul would each like to contribute money to their nephew's Coverdell Education Savings Account (ESA). Which of the following is correct regarding the maximum contribution that can be made on behalf of their nephew?**

- A. Jim, Mike, and Paul are permitted to contribute a combined amount not to exceed \$2,000 into their nephew's ESA in the current year.
- B. Jim, Mike, and Paul are permitted to each contribute \$2,000 into their nephew's ESA in the current year, for a total annual contribution of \$6,000.
- C. Jim, Mike, and Paul may each contribute up to the annual gift tax exclusion amount into their nephew's ESA in the current year.
- D. Jim, Mike, and Paul may "front-load" contributions into their nephew's ESA, so each may contribute up to five times the annual gift tax exclusion amount in the current year.

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For questions 11 – 15, match the investment with the description that follows. Use only one answer per blank. Each answer may be used only once.

- A. Money market fund
- B. Corporate bond
- C. Common stock
- D. Mutual fund
- E. Real estate

11. \_\_\_ Diversification smooths price volatility, historical above-inflation return, can preserve purchasing power in a portfolio.

12. \_\_\_ Liquid, easily converted to cash, low default risk, low real return.

13. \_\_\_ Fixed return, may lose value if not held until maturity, fixed interest payments.

14. \_\_\_ Not liquid, generally adequate inflation hedge.

15. \_\_\_ Used to generate income and growth, marketable, historical above-inflation return, can preserve purchasing power in a portfolio.

16. Which of the following regulations governs private placement exemptions?

- A. Regulation A
- B. Regulation D
- C. Regulation T
- D. Regulation U

17. If an RIA has more than \_\_\_\_\_ of assets under management, the RIA must register with the SEC.

- A. \$90 million
- B. \$100 million
- C. \$110 million
- D. \$120 million

18. An investor sold short 25 shares of Omikron stock at a price of \$98.50 per share. She also simultaneously placed a “good-till-cancelled, stop 102, limit 107 buy” order. Excluding transaction costs, what is the investor’s maximum potential loss?

- A. \$208.50
- B. \$210.50
- C. \$212.50
- D. \$214.25

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**19. All but which of the following is another name for a balance sheet?**

- A. Net worth statement
- B. Statement of assets and liabilities
- C. Statement of cash flows
- D. Statement of financial position

**20. Christine purchased 100 shares of Alpha stock for \$50 per share. At the end of two years, she sold the shares for \$70 per share. In the first year, the stock did not pay a dividend. In the second year, the stock paid a \$3 dividend. What was the holding period return of Christine's investment?**

- A. 23%
- B. 26%
- C. 32%
- D. 46%

**21. Which of the following acts was created in 2003 to prevent and mitigate identity theft, and includes a section that enables consumers to place fraud alerts in their credit files?**

- A. FACT Act
- B. FAIR Act
- C. FICA Act
- D. FRAUD Act

**22. Which of the following is correct regarding Keynesian economics?**

- A. It is considered a "demand-side" theory that focuses on changes in the economy over the long run.
- B. It is considered a "demand-side" theory that focuses on changes in the economy over the short run.
- C. It is considered a "supply-side" theory that focuses on changes in the economy over the long run.
- D. It is considered a "supply-side" theory that focuses on changes in the economy over the short run.

**23. Which of the following is the maximum civil penalty that can be imposed upon an individual who commits an insider trading violation?**

- A. The civil penalty may be an amount up to two times the profit gained or the loss avoided as a result of the insider trading violation.
- B. The civil penalty may be an amount up to three times the profit gained or the loss avoided as a result of the insider trading violation.
- C. The civil penalty may be an amount up to \$50,000.
- D. The civil penalty may be an amount up to \$100,000.

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24. Buying a \_\_\_\_\_ and selling a \_\_\_\_\_ are both bearish strategies.

- A. put, call
- B. put, put
- C. call, call
- D. call, put

For questions 25 – 28, match the stage of the business cycle with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.

- A. Trough
- B. Expansion
- C. Contraction
- D. Peak

25. \_\_\_ Recession

26. \_\_\_ Utilization at its lowest level

27. \_\_\_ Recovery

28. \_\_\_ GDP at its highest point

29. TIPS are indexed to the rate of inflation as measured by which of the following?

- A. Producer Price Index
- B. Personal Consumption Expenditures Price Index
- C. Implicit Price Deflator
- D. Consumer Price Index

30. Which of the following are correct regarding a bond's yield to maturity (YTM)?

- (1) The YTM assumes that coupon payments are reinvested at the YTM rate of return for the life of the bond.
- (2) When the market rate of interest for the same term and risk is higher than the coupon rate, a discount will be priced into the bond.
- (3) Bonds that are riskier will have lower yields to maturity.
- (4) The YTM is the internal rate of return for cash flow associated with a bond, including the purchase price, coupon payments, and maturity value.

- A. (1) and (2) only
- B. (3) and (4) only
- C. (1), (2), and (4) only
- D. (1), (3), and (4) only

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- 31. According to the Uniform Securities Act, all but which of the following are methods of registering securities offerings in a state?**
- A. Registration by coordination
  - B. Registration by notification
  - C. Registration by origination
  - D. Registration by qualification
- 32. A mutual fund that invests in securities both inside and outside the U.S. is known as which of the following?**
- A. Arbitrage fund
  - B. Global fund
  - C. International fund
  - D. Long-short fund
- 33. In order to withdraw registration as an investment adviser, an individual must file which of the following?**
- A. Form ADV-BR
  - B. Form ADV-E
  - C. Form ADV-H
  - D. Form ADV-W
- 34. Which of the following is the prohibited practice of entering into an equity trade to capitalize on advance, nonpublic knowledge of a large pending transaction that will influence the price of the underlying security?**
- A. Capping
  - B. Front running
  - C. Painting the tape
  - D. Pegging
- 35. According to the Telephone Consumer Protection Act, companies must maintain do-not-call lists reflecting the names of customers who have requested to be excluded from telemarketing, and those requests must be honored for how many years?**
- A. 1 year
  - B. 2 years
  - C. 5 years
  - D. 7 years
- 36. The duration of a coupon bond is always \_\_\_\_\_ its term to maturity. A zero-coupon bond's duration is always \_\_\_\_\_ its term to maturity.**
- A. equal to, less than
  - B. greater than, less than
  - C. less than, greater than
  - D. less than, equal to

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- 37. Which of the following acts mandated a number of reforms to enhance corporate responsibility, enhance financial disclosures, and combat corporate and accounting fraud? It also created the “Public Company Accounting Oversight Board,” to oversee the activities of the auditing profession.**
- A. National Securities Market Improvement Act of 1996  
B. Patriot Act of 2001  
C. Sarbanes-Oxley Act of 2002  
D. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
- 38. Which of the following provides the decedent/grantor’s estate with the unlimited marital deduction while, at the same time, ensuring that the decedent retains control over the ultimate disposition of his or her property?**
- A. Marital trust  
B. Credit shelter trust  
C. QTIP trust  
D. Revocable trust
- 39. How frequently will a mutual fund with a turnover ratio of 20% replace its total holdings?**
- A. Every year  
B. Every 2 years  
C. Every 4 years  
D. Every 5 years
- 40. Which of the following refers to using property to secure payment of a loan, which includes mortgages, pledges, and putting up collateral, but the borrower retains possession?**
- A. Hypothecate  
B. Pledge  
C. Remunerate  
D. None of the above are correct.
- 41. All but which of the following are correct regarding FINRA’s emergency preparedness rule?**
- A. A firm must disclose to its customers how its business continuity plan addresses the possibility of a significant business disruption and how the firm plans to respond to events of varying scope.  
B. A firm’s business continuity plan must be made available promptly to FINRA staff if requested.  
C. A firm’s business continuity plan must be reasonably designed so the firm can meet its existing obligations to customers.  
D. A firm’s business continuity plan may be kept confidential from clients.

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**42. Which of the following is the central banking system of the United States?**

- A. Federal Reserve
- B. FOMC
- C. U.S. Mint
- D. U.S. Treasury

**43. Which of the following acts requires trustees to follow the modern portfolio theory of investing?**

- A. Uniform Securities Act of 1956
- B. Securities Investor Protection Act of 1970
- C. Uniform Prudent Investor Act of 1994
- D. National Securities Market Improvement Act of 1996

**44. William, age 56, recently retired from Epsilon Inc., and would like to take a distribution from a retirement plan to pay for medical expenses. Which of the following plans would allow William to take a penalty free withdrawal?**

- A. Single premium deferred annuity
- B. Traditional IRA
- C. Money purchase plan from his employer before Epsilon Inc.
- D. 401(k) from Epsilon Inc.

**45. Which of the following is a type of bond offered as a tranche class of some CMOs, according to a sinking-fund schedule?**

- A. General obligation bond
- B. Planned amortization class (PAC) bond
- C. Targeted amortization class (TAC) bond
- D. Zero-coupon bond

**46. Which of the following is an unconditional contract between a bond issuer and a bondholder that specifies the terms of the bond?**

- A. Debenture
- B. Indenture
- C. Prospectus
- D. Tombstone ad

**47. Futures trading is regulated by which of the following?**

- A. AMBAC
- B. CFTC
- C. NASAA
- D. OCC

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**48. Alpha Corporation reports the following information for the fiscal year (in millions):**

Revenue	\$6,115
Expenses	\$3,770
Beginning retained earnings	\$510
Liabilities at year-end	\$985
Contributed capital at year-end	\$440
Dividends	\$0
Effective tax rate	35%

**What is the value of Alpha Corporation's total assets at year-end?**

- A. \$1,935 million
- B. \$3,260 million
- C. \$4,280 million
- D. \$8,050 million

**49. Which of the following represents the maximum amount of capital loss that an individual taxpayer can deduct in a single year?**

- A. Up to the amount of capital gain.
- B. Up to the amount of capital gain plus \$3,000.
- C. Up to the amount of capital gain plus \$6,000.
- D. Only \$3,000.

**50. Which of the following is referred to as the "know your customer" rule, which states that a customer's situation must be suitable for any investment being made?**

- A. Securities Act Rule 144
- B. Securities Act Rule 405
- C. Securities Act Rule 433
- D. Securities Act Rule 506

**51. All but which of the following are charting techniques used by technical analysts?**

- A. CAPM
- B. Moving average
- C. Support and resistance levels
- D. Trendline

**52. The Dow Jones Utility Average is an index comprised of \_\_\_\_\_ utility stocks.**

- A. 15
- B. 30
- C. 50
- D. 100

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53. All but which of the following are characteristics of tangible assets, such as collectibles?
- A. They do not have a strong secondary market.
  - B. They are not subject to significant government regulation.
  - C. They are marketable.
  - D. They lack liquidity.
54. Which of the following forms must broker-dealers, investment advisers, or issuers of securities fill out in order to terminate the registration of an individual in the appropriate jurisdiction? It is also known as the Uniform Termination Notice for Securities Industry Registration.
- A. Form U4
  - B. Form U5
  - C. Form U6
  - D. Form U7
55. Earnings after taxes ÷ Annual sales = \_\_\_\_\_
- A. Average collection period
  - B. Net profit margin
  - C. Operating profit margin
  - D. Quick ratio
- For questions 56 – 59, match the charitable trust with the description that follows. Use only one answer per blank. Answers may be used more than once or not at all.
- A. Charitable remainder annuity trust (CRAT)
  - B. Charitable remainder unitrust (CRUT)
  - C. Neither A or B
  - D. Both A and B
56. \_\_\_\_\_ Income tax savings, income is a sum certain
57. \_\_\_\_\_ Income tax savings, income can be provided for life
58. \_\_\_\_\_ Income tax savings, immediate income to charity
59. \_\_\_\_\_ Estate tax savings, income is variable

60. An investment-grade bond is one that is rated \_\_\_\_\_ or higher by Moody's. A high-yield bond is rated \_\_\_\_\_ or lower by Moody's.

- A. Ba, Baa
- B. Baa, Ba
- C. Baa3, Ba1
- D. Baa+, Ba-

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- 61. Which of the following forms must companies file with the SEC to announce certain material events or corporate changes that shareholders should be made aware of?**
- A. Form 8-K  
B. Form 10-K  
C. Form 10-Q  
D. Form I-9
- 62. The S&P index has \_\_\_\_\_ risk.**
- A. non-systematic  
B. non-diversifiable  
C. diversifiable  
D. unsystematic
- 63. Which of the following is the system for reporting and clearing trades in the over-the-counter (OTC) and NASDAQ securities markets?**
- A. Automated Confirmation Transaction Service  
B. Automated Quotation Service  
C. Automated National Transaction Service  
D. Automated OTC Clearing Service
- 64. Beta Corporation reports the following information for the fiscal year:**
- |                      |             |
|----------------------|-------------|
| Revenue              | \$2,875,000 |
| Cost of goods sold   | \$1,950,000 |
| Return of goods sold | \$160,000   |
| Cash collected       | \$1,425,000 |
| Effective tax rate   | 30%         |
- According to the accrual basis of accounting, what is Beta Corporation's reported net revenue?
- A. \$925,000  
B. \$1,085,000  
C. \$1,585,000  
D. \$2,715,000
- 65. Which of the following is correct regarding IRA contributions?**
- A. IRA contributions made above the maximum annual limit are subject to a 10% nondeductible excise tax.  
B. A nonworking divorced person, age 40, who receives alimony may contribute to an IRA the lesser of the maximum contribution limit or 100% of the alimony received.  
C. An employee who makes voluntary contributions to a 401(k) plan is not considered an active participant for the purpose of making IRA contributions.  
D. An employee participating in a 457 plan is considered an active participant for the purpose of making IRA contributions.

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**66. Which of the following help to facilitate block trading and are known for their lack of transparency?**

- A. Blind trusts
- B. Dark pools
- C. Pooled income funds
- D. Private placements

**67. Which of the following is the governing body of FINRA, which oversees the administration of its affairs and the promotion of its welfare, objectives, and purposes?**

- A. Board of Governors
- B. Board of Trustees
- C. Congress
- D. FINRA Chairman

**68. Which of the following are correct regarding exchange-traded funds (ETFs)?**

- (1) Unlike mutual funds, investors can buy and sell ETFs throughout the trading day.
  - (2) ETFs can be bought on margin or sold short.
  - (3) There is never a transaction fee to buy or sell an ETF.
  - (4) ETFs have low management fees compared to mutual funds.
- A. (3) only
  - B. (4) only
  - C. (1), (2), and (3) only
  - D. (1), (2), and (4) only

**69. All but which of the following are correct regarding the stock market trading pattern known as "sector rotation"?**

- A. It involves shifting investments from one sector of the economy to another.
- B. It is a passive investment strategy, similar to indexing.
- C. It assumes that sector performance is correlated to the business cycle.
- D. It can be expensive to implement because of the potential costs associated with extensive trading activity.

**70. All but which of the following statements are correct regarding bonds and preferred stock?**

- A. If a company declares bankruptcy, bondholders are repaid before preferred stock shareholders.
- B. Preferred stocks pay dividends; bonds pay interest.
- C. Bonds are subject to greater interest rate risk than preferred stock.
- D. Neither bond interest nor preferred stock dividends qualify for capital gains treatment.

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**71. A share of Omega preferred stock has a par value of \$100 and a preferred dividend rate of 6.25%. If the required return is 11.5%, what is the price per share?**

- A. \$54.35
- B. \$98.50
- C. \$184.00
- D. \$196.00

**72. All but which of the following are types of municipal bonds?**

- A. General obligation bond
- B. Preferred bond
- C. Private activity bond
- D. Revenue bond

**For questions 73 – 76, determine if the exchange described qualifies as a 1035 exchange. Use only one answer per blank. Answers may be used more than once or not at all.**

- A. 1035 exchange
- B. Not a 1035 exchange

**73. \_\_\_ A life insurance policy exchanged for a life insurance policy.**

**74. \_\_\_ An annuity exchanged for an annuity.**

**75. \_\_\_ An annuity exchanged for a life insurance policy.**

**76. \_\_\_ A life insurance policy exchanged for an annuity.**

**77. All but which of the following are correct regarding an “unqualified opinion”?**

- A. It is an independent auditor’s judgment that a company’s financial reports are fairly and appropriately presented.
- B. It is considered to be a “clean” auditor’s report.
- C. It is also known as a “disclaimer of opinion.”
- D. It indicates that the financial reports conform to GAAP.

**78. Which of the following is/are correct regarding the early withdrawal penalty from a SIMPLE IRA?**

- (1) Early withdrawals are subject to a 20% penalty if the withdrawals are made during the first two years of plan participation.
- (2) After the initial two-year period, early withdrawals from a SIMPLE IRA are subject to a 10% penalty.

- A. (1) only
- B. (2) only
- C. Both (1) and (2) are correct.
- D. Neither (1) or (2) are correct.

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- 79. Which of the following yield curves results from short-term debt instruments having a lower yield than long-term debt instruments of the same credit quality?**
- A. Flat yield curve
  - B. Inverted yield curve
  - C. Normal yield curve
  - D. Steep yield curve
- 80. Which of the following is a manipulative trading activity that is designed to prevent the price of a security from falling?**
- A. Capping
  - B. Front running
  - C. Painting the tape
  - D. Pegging
- 81. The Securities Acts Amendments of 1975 did which of the following?**
- A. It gave authority to the Municipal Securities Rulemaking Board (MSRB).
  - B. It required financial institutions to assist U.S. government agencies to detect and prevent money laundering.
  - C. It provided fiduciary responsibilities for those who manage and control plan assets and gave participants the right to sue for benefits and breaches of fiduciary duty.
  - D. It created the Public Company Accounting Oversight Board to oversee the activities of the auditing profession.
- 82. A security has an expected annual return of 9.5% and an expected standard deviation of 14.4%. The market has an expected annual return of 7.8% and an expected standard deviation of 12.2. If the correlation between the security and the market is 0.75, what is the security's beta?**
- A. 0.64
  - B. 0.89
  - C. 1.02
  - D. 1.09
- 83. Which of the following anomalies support the efficient market hypothesis?**
- (1) The January Effect
  - (2) The Neglected Firm Effect
  - (3) The Turn-of-the-Month Effect
  - (4) The Value Line Anomaly
- A. (1) and (3) only
  - B. (2) and (3) only
  - C. All of the above support the efficient market hypothesis.
  - D. None of the above support the efficient market hypothesis.

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**84. Which of the following is correct regarding the taxation of qualified dividends?**

- A. They are taxed as ordinary income.
- B. They are exempt from taxation.
- C. They are taxed at the long-term capital gains tax rate.
- D. They are taxed at the short-term capital gains tax rate.

**85. A nonexempt unregistered security may be sold through which of the following?**

- A. Common stock
- B. IPO
- C. Mutual fund
- D. Private placement

**86. Which of the following is a characteristic of American Depository Receipts (ADRs)?**

- A. ADRs trade once per day like mutual funds.
- B. ADR holders receive foreign tax credits for income tax paid to a foreign country.
- C. ADR dividends are declared in U.S. dollars.
- D. ADRs allow domestic securities to be traded in foreign countries.

**87. All but which of the following information is commonly found in a mutual fund prospectus?**

- A. Fees and expenses
- B. Investment objectives
- C. Principal risks of investing in the fund
- D. All of the above are correct.

**88. Which of the following is the formula to calculate gross national product (GNP)?**

- A. GDP + Net income inflow from abroad – Net income outflow to foreign countries
- B. GDP + Net income inflow from abroad + Net income outflow to foreign countries
- C. GDP – Net income inflow from abroad – Net income outflow to foreign countries
- D. GDP – Net income inflow from abroad + Net income outflow to foreign countries

**89. Which of the following are dollar-denominated bonds issued by emerging markets (typically Latin American countries) and collateralized by U.S. Treasuries?**

- A. Brady bonds
- B. Eurobonds
- C. Fidelity bonds
- D. Surety bonds

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90. According to the "brochure rule," investment advisers must deliver the brochure to clients not less than \_\_\_\_\_ prior to entering into any written or oral investment advisory contract, or no later than the time of entering into such contract if the client has the right to terminate the contract without penalty within \_\_\_\_\_ after entering into the contract.

- A. 24 hours, 2 business days
- B. 24 hours, 5 business days
- C. 48 hours, 2 business days
- D. 48 hours, 5 business days

91. Which of the following entities is subject to double taxation?

- A. C Corp
- B. S Corp
- C. LLC
- D. Partnership

92. Under the provisions of ERISA, a fiduciary is an individual who meets which of the following criteria?

- (1) Exercises discretionary authority over retirement plan management.
- (2) Has discretionary authority or responsibility over plan administration.
- (3) Renders investment advice for a fee or other compensation.
- (4) Exercises authority or control over the disposition of retirement plan assets.

- A. (1) and (3) only
- B. (2) and (4) only
- C. (1), (2), and (4) only
- D. All of the above are correct.

93. All but which of the following are correct regarding stock market benchmarks and indexes?

- A. The NASDAQ Composite is a value-weighted index.
- B. The Russell 2000 is a value-weighted index.
- C. The S&P 500 is a price-weighted index.
- D. The Wilshire 5000 is a value-weighted index.

94. The standard expiration period for a put or call option is \_\_\_\_\_. Long-term equity anticipation securities (LEAPS) have an expiration period \_\_\_\_\_.

- A. 6 months, longer than 1 year
- B. 6 months, between 6 months and 1 year
- C. 9 months, between 9 months and 1 year
- D. 9 months, longer than 1 year

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**95. Incentive stock options (ISOs) may be granted to which of the following?**

- A. Employees
- B. Independent contractors
- C. Non-employee directors
- D. All of the above are correct.

**96. Which of the following is a type of exchange rate system in which a country ties its currency to a basket of other currencies or to another measure of value, such as gold?**

- A. Adjustable exchange rate system
- B. Commodity exchange rate system
- C. Fixed exchange rate system
- D. Variable exchange rate system

**97. Monetary policy is carried out through all but which of the following methods?**

- A. Open market operations
- B. Changing the discount rate
- C. Changing the reserve requirements
- D. Taxation

**98. Beta Corporation provides the following information in its annual shareholder report:**

Net income	\$660,000
Depreciation	\$35,000
Increase in accounts receivable	\$110,000
Increase in accounts payable	\$120,000

**What is Beta Corporation's cash flow from operations?**

- A. \$685,000
- B. \$705,000
- C. \$890,000
- D. \$925,000

**99. Which of the following U.S. Supreme Court cases defined an investment contract as "a contract, transaction, or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party"?**

- A. Securities and Exchange Commission v. Edwards
- B. Securities and Exchange Commission v. Ralston Purina Co.
- C. Securities and Exchange Commission v. Plexcorps
- D. Securities and Exchange Commission v. W. J. Howey Co.

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- 100.** An investor sells a naked call on Omikron for a \$250 premium. Which of the following is true regarding the investor's position?
- A. The investor is expecting Omikron stock to increase in value.
  - B. The investor's potential loss is unlimited.
  - C. The investor's potential loss is limited to \$250.
  - D. The investor's outlook for Omikron stock is bullish.
- 101.** If Zeta Fund's Sharpe ratio is 0.76, its standard deviation is 9%, and the risk free-rate is 3.5%, what is the fund's return?
- A. 9.92%
  - B. 10.34%
  - C. 10.56%
  - D. 10.72%
- 102.** Which of the following passes capital gains, dividends, and interest earned on fund investments directly to shareholders so that it is taxed only at the personal level, and double taxation is avoided?
- A. Private placement
  - B. Regulated investment company
  - C. Unregulated investment company
  - D. Wholly owned subsidiary
- 103.** Which of the following is a form of insurance protection that covers public consumers for losses that they incur as a result of fraudulent acts by specified individuals, such as employees of a broker-dealer?
- A. Brady bond
  - B. Debenture bond
  - C. Fidelity bond
  - D. Surety bond
- 104.** On September 12th of last year, Joel bought 100 shares of Sigma stock for \$20 per share. On December 18th of last year, he sold all of his shares for \$1,600. On January 3rd of this year, Joel bought back 100 shares of Sigma stock for \$20 per share. Which of the following is true regarding Joel's transaction?
- A. Joel can realize the \$400 loss.
  - B. If Joel waited a few more days to buy back the stock, he could have realized the gain.
  - C. The wash sale rule doesn't apply to Joel because the transactions occurred in two separate years.
  - D. No loss deduction is allowed; the amount of the disallowed loss will be added to the cost basis of the shares that Joel purchased on January 3rd.

Practice Exam 2

- 105. Which of the following is required by the IRS if a taxpayer uses the substantially equal periodic payment (SEPP) exception to the premature distribution penalty?**
- A. The taxpayer must show proof of economic hardship.
  - B. The taxpayer must show proof that payments will be used to pay for qualified medical or education expenses.
  - C. The taxpayer must show proof that appropriate taxes will be withheld.
  - D. None of the above are correct.
- 106. Kate owns an investment yielding an 18% pre-tax return. If she is in the 28% tax bracket, what is the equivalent after-tax return?**
- A. 5.04%
  - B. 12.96%
  - C. 14.28%
  - D. 23.04%
- 107. Based on the Markowitz efficient frontier model, which of the following securities would a rational investor select?**
- A. Security A has a 5% rate of return and a beta of 0.8.
  - B. Security B has a 6% rate of return and a beta of 0.8.
  - C. Security C has a 3% rate of return and a beta of 0.7.
  - D. Security D has a 6% rate of return and a beta of 0.6.
- 108. Which of the following is the result of persistent high inflation combined with high unemployment and a slowing demand for goods and services?**
- A. Deflation
  - B. Inflation
  - C. Reflation
  - D. Stagflation
- 109. Which of the following is/are correct regarding profit sharing plans?**
- (1) Contributions to a profit sharing plan may not be skewed to favor older employees.
  - (2) The allocation formula may discriminate in favor of highly compensated employees.
- A. (1) only
  - B. (2) only
  - C. Both (1) and (2) are correct.
  - D. Neither (1) or (2) are correct.

## Practice Exam 2

- 110.** The Alpha and Treynor ratios assume a \_\_\_\_\_ portfolio. The Sharpe ratio assumes a \_\_\_\_\_ portfolio.
- A. diversified, non-diversified
  - B. non-diversified, diversified
  - C. non-diversified, riskless
  - D. riskless, diversified
- 111.** The two broad categories of defined contribution plans are:
- A. defined benefit plans and pension plans.
  - B. personal plans and employer plans.
  - C. profit sharing plans and pension plans.
  - D. qualified plans and profit sharing plans.
- 112.** All but which of the following are correct regarding a UGMA/UTMA account?
- A. Unlike a 529 plan, funds do not need to be used to pay for education expenses.
  - B. The custodian, typically the minor's parent, does not own the assets in the account.
  - C. Similar to a 529 plan, funds in the account grow tax-deferred.
  - D. Once the account is set up, it's considered to be an irrevocable gift.
- 113.** According to SEC Rule 506(b), private placements may be sold to how many accredited and non-accredited investors?
- A. An unlimited number of accredited investors and up to 35 non-accredited investors.
  - B. An unlimited number of accredited investors and up to 100 non-accredited investors.
  - C. A total of 35 accredited and non-accredited investors.
  - D. A total of 100 investors, of which 35 can be non-accredited.
- 114.** Which of the following is the penalty for a premature distribution from a qualified plan, 403(b) plan, IRA, or SEP?
- A. 5%
  - B. 10%
  - C. 15%
  - D. Ordinary income tax rates
- 115.** As bond interest rates \_\_\_\_\_, bond duration \_\_\_\_\_.
- A. decrease, decreases
  - B. decrease, increases
  - C. increase, increases
  - D. increase, is unchanged

## Practice Exam 2

**116. If real GDP declined last quarter, how many more consecutive quarters of decline would be needed to be classified as an economic recession?**

- A. 1 quarter
- B. 2 quarters
- C. 3 quarters
- D. 4 quarters

**117. Which of the following describes bonds that have a legal claim to specific assets in the event of default, insolvency, or liquidation?**

- A. Debenture bonds
- B. Indenture bonds
- C. Secured bonds
- D. Unsecured bonds

**118. Which of the following goods decrease in demand as consumer income increases?**

- A. Inferior good
- B. Normal good
- C. Superior good
- D. None of the above are correct.

**119. Which of the following is correct regarding a pre-emptive right?**

- A. It is also referred to as a “subscription right” or a “subscription privilege.”
- B. It is an obligation for existing shareholders to purchase new shares of stock before they are offered to the public.
- C. Exercising a pre-emptive right can cause dilution.
- D. All of the above are correct.

**120. Hybrid REITs combine features of which of the following?**

- A. Equity REITs and commodity REITs
- B. Equity REITs and mortgage REITs
- C. Mortgage REITs and commodity REITs
- D. None of the above are correct.

**121. Which of the following refers to the high-speed electronic system that reports the latest price and volume data on sales of exchange-listed stocks?**

- A. Consolidated tape
- B. Instinet
- C. EDGAR
- D. TRACE

## Practice Exam 2

The following information relates to questions 122 – 123.

Theta Inc. provides the following information on their year-end financial statement:

Cash and cash equivalents	\$150,000
Short-term marketable securities	\$90,000
Receivables	\$195,000
Other non-financial assets	\$65,000
Current liabilities	\$200,000
Non-current liabilities	\$40,000

122. What is Theta Inc.'s quick ratio?

- A. 2.08
- B. 2.18
- C. 2.50
- D. 2.72

123. What is Theta Inc.'s cash ratio?

- A. 0.63
- B. 1.00
- C. 1.20
- D. 1.30

124. All but which of the following are correct regarding solicitors?

- A. Being a "solicitor" typically involves soliciting, referring, offering, or negotiating the sale of investment advisory services on behalf of a third party financial adviser for monetary compensation.
- B. According to SEC Rule 206(4)-3, the terms of the fee to be paid and solicitor activity being conducted must be documented by a written agreement.
- C. Both individuals and entities can be considered solicitors.
- D. Individuals that merely solicit on behalf of an RIA firm are never required to qualify as an individual IAR or establish his or her own investment advisory firm.

125. Which of the following acts applies to debt securities, such as bonds, debentures, and notes that are offered for public sale? Even though such securities may be registered under the Securities Act, they may not be offered for sale to the public unless a formal agreement between the issuer of bonds and the bondholder conforms to the standards of this act.

- A. Maloney Act of 1938
- B. Trust Indenture Act of 1939
- C. Investment Company Act of 1940
- D. Securities Investor Protection Act of 1970

## Practice Exam 2

- 126.** Dennis, a Vice President at Gamma Corporation, earns \$450,000 in 2024. If the company has installed a 15% money purchase plan, how much can the company contribute on his behalf?
- A. \$23,000
  - B. \$51,750
  - C. \$67,500
  - D. \$69,250
- 127.** Regarding municipal bonds, which of the following is the small amount of money, usually less than 5% of an issue, that underwriters give to the issuer in exchange for the right to place part of the issue?
- A. Credit deposit
  - B. Down payment
  - C. Escrow deposit
  - D. Good faith deposit
- 128.** A fixed income security is subject to which of the following risks?
- (1) Exchange rate risk
  - (2) Purchasing power risk
  - (3) Default risk
  - (4) Liquidity risk
  - (5) Reinvestment risk
- A. (1), (2), (3), and (4) only
  - B. (1), (2), (4), and (5) only
  - C. (2), (3), (4), and (5) only
  - D. All of the above are correct.
- 129.** Which of the following refers to direct institution-to-institution trading, usually done in blocks, without using the service of broker-dealers?
- A. First market
  - B. Second market
  - C. Third market
  - D. Fourth market
- 130.** Which of the following acts established the policies and procedures commonly referred to as a "Chinese wall"?
- A. Uniform Securities Act of 1956
  - B. Bank Secrecy Act of 1970
  - C. Insider Trading and Securities Fraud Enforcement Act of 1988
  - D. Sarbanes-Oxley Act of 2002

## **ANSWER KEY**

**1. D**

Congress has provided the SEC with the power to supervise self-regulatory organizations (SROs) as a matter of public interest.

**2. B**

In a short call, the maximum gain is the premium paid and the maximum loss is unlimited.

**3. D**

The Federal Open Market Committee (FOMC) consists of 12 members and holds 8 regularly scheduled meetings per year. It reviews economic and financial conditions and determines the appropriate stance of monetary policy.

**4. B**

The Truth in Lending Act of 1968 is designed to promote the informed use of consumer credit by requiring disclosures about its terms and cost to standardize the manner in which costs associated with borrowing are calculated and disclosed.

**5. A**

A taxable distribution occurs when a distribution is made to a skip person from a trust when a non-skip person still has an interest in the trust. A skip person is a related individual two or more generations younger than the transferor.

**6. B**

$M3 = M2 + \text{Long-term time deposits}$

**7. B**

The potential benefit that is lost by choosing one option over another is referred to as the opportunity cost.

**8. C**

A special catch-up provision is permitted in 403(b) plans for employees with at least 15 years of service who have not made contributions and are employed by universities.

**9. C**

Treasury bills have maturities of 1 year or less.

Treasury notes have maturities of 10 years or less.

Treasury bonds have maturities greater than 10 years.

**10. A**

Coverdell Education Savings Accounts (ESAs) have a maximum contribution limit of \$2,000 per beneficiary per year.

**11. D**

Mutual fund: Diversification smooths price volatility, historical above-inflation return, can preserve purchasing power in a portfolio.

## Practice Exam 2

### 12. A

Money market fund: Liquid, easily converted to cash, low default risk, low real return.

### 13. B

Corporate bond: Fixed return, may lose value if not held until maturity, fixed interest payments.

### 14. E

Real estate: Not liquid, generally adequate inflation hedge.

### 15. C

Common stock: Used to generate income and growth, marketable, historical above-inflation return, can preserve purchasing power in a portfolio.

### 16. B

Regulation D governs private placement exemptions.

### 17. C

If an RIA has more than \$110 million of assets under management, the RIA must register with the SEC.

### 18. C

$(\$107 - \$98.50) \times 25 \text{ shares} = \$212.50$

### 19. C

A balance sheet can also be referred to as a net worth statement, statement of assets and liabilities, and statement of financial position.

### 20. D

$\text{HPR} = [(\$7,000 + \$300) - \$5,000] \div \$5,000 = 0.46 = 46\%$

### 21. A

The FACT Act (Fair and Accurate Credit Transactions Act) was created in 2003 to prevent and mitigate identity theft and includes a section that enables consumers to place fraud alerts in their credit files.

### 22. B

Keynesian economics is considered a "demand-side" theory that focuses on changes in the economy over the short run.

### 23. B

The civil penalty may be an amount up to three times the profit gained or the loss avoided as a result of the insider trading violation.

### 24. A

Buying a put and selling a call are both bearish strategies.

### 25. C

The contraction stage of the business cycle is characterized by recession.

## Practice Exam 2

**26. A**

At the trough of the business cycle, utilization will be at its lowest level.

**27. B**

The expansion stage of the business cycle is characterized by recovery.

**28. D**

At the peak of the business cycle, GDP will be at its highest point.

**29. D**

TIPS (treasury inflation-protected securities) are indexed to the rate of inflation as measured by the Consumer Price Index (CPI).

**30. C**

The yield to maturity (YTM) is the internal rate of return for cash flow associated with a bond, including the purchase price, coupon payments, and maturity value. It assumes that coupon payments are reinvested at the YTM rate of return for the life of the bond. When the market rate of interest for the same term and risk is higher than the coupon rate, a discount will be priced into the bond. Bonds that are riskier will have higher yields to maturity.

**31. C**

According to the Uniform Securities Act, the methods of registering securities offerings in a state are registration by coordination, registration by notification, and registration by qualification.

**32. B**

A mutual fund that invests in securities both inside and outside the U.S. is known as a global fund.

**33. D**

In order to withdraw registration as an investment adviser, an individual must file Form ADV-W.

**34. B**

Front running is the prohibited practice of entering into an equity trade to capitalize on advance, nonpublic knowledge of a large pending transaction that will influence the price of the underlying security.

**35. C**

According to the Telephone Consumer Protection Act, companies must maintain do-not-call lists reflecting the names of customers who have requested to be excluded from telemarketing. Such requests must be honored for 5 years.

**36. D**

The duration of a coupon bond is always less than its term to maturity. A zero-coupon bond's duration is always equal to its term to maturity.

## Practice Exam 2

### 37. C

The Sarbanes-Oxley Act of 2002 mandated a number of reforms to enhance corporate responsibility, enhance financial disclosures, and combat corporate and accounting fraud. It also created the "Public Company Accounting Oversight Board," to oversee the activities of the auditing profession.

### 38. C

A QTIP trust provides the decedent/grantor's estate with the unlimited marital deduction while, at the same time, ensuring that the decedent retains control over the ultimate disposition of his or her property.

### 39. D

$$1 \div 0.20 = 5$$

A mutual fund with a turnover ratio of 20% will replace its total holdings every 5 years.

### 40. A

Hypothecate refers to using property to secure payment of a loan, which includes mortgages, pledges, and putting up collateral, but the borrower retains possession.

### 41. D

According to FINRA's emergency preparedness rule, a firm must disclose to its customers how its business continuity plan addresses the possibility of a significant business disruption and how the firm plans to respond to events of varying scope. A firm's business continuity plan must be made available promptly to FINRA staff if requested, and it must be reasonably designed so the firm can meet its existing obligations to customers. The plan must be made in writing to customers when they open their account, posted on the firm's website if they maintain one, and mailed to customers upon request.

### 42. A

The Federal Reserve is the central banking system of the United States.

### 43. C

The Uniform Prudent Investor Act of 1994 requires trustees to follow the modern portfolio theory of investing.

### 44. D

Withdrawals from a 401(k) after separating from service are penalty free if the separation occurs at age 55 or older. The other options would result in an early withdrawal penalty.

### 45. C

A targeted amortization class (TAC) bond is a type of bond offered as a tranche class of some CMOs, according to a sinking-fund schedule.

### 46. B

An indenture is an unconditional contract between a bond issuer and a bondholder that specifies the terms of the bond.

### 47. B

Futures trading is regulated by the Commodity Futures Trading Commission (CFTC).

## Practice Exam 2

**48. C**

Assets = Liabilities at year-end + Contributed capital at year-end + Beginning retained earnings + Revenues - Expenses - Dividends

$$\text{Assets} = \$985 + \$440 + \$510 + \$6,115 - \$3,770 = \$4,280 \text{ million}$$

**49. B**

The maximum amount of capital loss that an individual taxpayer can deduct in a single year is up to the amount of capital gain plus \$3,000.

**50. B**

Securities Act Rule 405 is referred to as the “know your customer” rule, which states that a customer’s situation must be suitable for any investment being made.

**51. A**

Technical analysts use charting techniques which include the moving average, support and resistance levels, and trendline.

**52. A**

The Dow Jones Utility Average is an index comprised of 15 utility stocks.

**53. C**

Collectibles lack marketability and liquidity. They do not have a strong secondary market and they’re not subject to significant government regulation.

**54. B**

Broker-dealers, investment advisers, and issuers of securities must fill out form U5 in order to terminate the registration of an individual in the appropriate jurisdiction. It is also known as the Uniform Termination Notice for Securities Industry Registration.

**55. B**

Earnings after taxes ÷ Annual sales = Net profit margin

**56. A**

A charitable remainder annuity trust (CRAT) provides fixed income that is a sum certain.

**57. D**

Both a charitable remainder annuity trust (CRAT) and charitable remainder unitrust (CRUT) can provide income to the grantor for life, along with a deduction for the charitable contribution of the remainder interest.

**58. C**

Neither a charitable remainder annuity trust (CRAT) nor charitable remainder unitrust (CRUT) provides immediate income to charity. Instead, they provide an interest to charity after income has been paid to the grantor. A charitable lead trust provides immediate income to charity.

**59. B**

A charitable remainder unitrust (CRUT) provides variable income because the income is based on the value of the trust assets revalued annually.

## Practice Exam 2

### 60. C

An investment-grade bond is one that is rated Baa3 or higher by Moody's. A high-yield bond is rated Ba1 or lower by Moody's.

### 61. A

Companies must file Form 8-K with the SEC to announce certain material events or corporate changes that shareholders should be made aware of.

### 62. B

The S&P index has systematic risk only. Systematic risk is also referred to as non-diversifiable risk. The other answers (non-systematic risk, diversifiable risk, and unsystematic risk) all refer to the same type of risk.

### 63. A

The Automated Confirmation Transaction Service (ACT) is the system for reporting and clearing trades in the over-the-counter (OTC) and NASDAQ securities markets.

### 64. D

Net revenue = Revenue – Returns and adjustments

$$\text{Net revenue} = \$2,875,000 - \$160,000 = \$2,715,000$$

### 65. B

The nondeductible excise tax for over-contributing to an IRA is 6%, not 10%. An employee who makes voluntary contributions to a 401(k) plan is considered an active participant. However, an employee participating in a 457 plan is not an active participant. A nonworking divorced person, age 40, who receives alimony may contribute to an IRA the lesser of the maximum contribution limit or 100% of the alimony received.

### 66. B

Dark pools help to facilitate block trading and are known for their lack of transparency.

### 67. A

The Board of Governors is the governing body of FINRA and oversees the administration of its affairs and the promotion of its welfare, objectives, and purposes.

### 68. D

Unlike mutual funds, investors can buy and sell exchange-traded funds (ETFs) throughout the trading day. ETFs can be bought on margin or sold short, and they carry low management fees because they require very little active management. There is typically a transaction fee any time an ETF is bought or sold.

### 69. B

Sector rotation involves shifting investments from one sector of the economy to another. It assumes that sector performance is correlated to the business cycle, and it can be expensive to implement because of the potential costs associated with extensive trading activity. It is an active investment strategy, not passive.

## Practice Exam 2

### 70. C

Preferred stock does not have a fixed maturity date. Therefore, it has unlimited interest rate risk. If a company declares bankruptcy, bondholders are repaid before preferred stock shareholders. Preferred stocks pay dividends; bonds pay interest. Neither bond interest nor preferred stock dividends qualify for capital gains treatment.

### 71. A

$$P_p = D_p \div r_p$$

$$P_p = (0.0625 \times \$100) \div 0.115 = \$54.35$$

### 72. B

Types of municipal bonds include general obligation bonds, private activity bonds, and revenue bonds.

### 73. A

A life insurance policy exchanged for a life insurance policy is a permitted 1035 exchange.

### 74. A

An annuity exchanged for an annuity is a permitted 1035 exchange.

### 75. B

An annuity exchanged for a life insurance policy is not a permitted 1035 exchange.

### 76. A

A life insurance policy exchanged for an annuity is a permitted 1035 exchange.

### 77. C

An unqualified opinion is an independent auditor's judgment that a company's financial reports are fairly and appropriately presented. It is considered to be a "clean" auditor's report, and it indicates that the financial reports conform to GAAP.

### 78. B

Early withdrawals from a SIMPLE IRA are subject to a 25% penalty if the withdrawals are made during the first two years of plan participation. After the initial two-year period, the early withdrawal penalty is reduced to 10%.

### 79. C

A normal yield curve results from short-term debt instruments having a lower yield than long-term debt instruments of the same credit quality.

### 80. D

Pegging is a manipulative trading activity that is designed to prevent the price of a security from falling.

### 81. A

The Securities Act Amendments of 1975 gave authority to the Municipal Securities Rule-making Board (MSRB).

## Practice Exam 2

**82. B**

$$B_i = (\rho_{i,m} \times \sigma_i) \div \sigma_m$$

$$B_i = (0.75 \times 0.144) \div 0.122 = 0.89$$

**83. D**

Stock market anomalies should not occur if markets are fully efficient. They do not support the efficient market hypothesis.

**84. C**

Qualified dividends are taxed at the long-term capital gains tax rate.

**85. D**

A nonexempt unregistered security may be sold through a private placement.

**86. B**

ADRs allow for the trading of international securities in domestic countries. They trade throughout the day, and their dividends are declared in local currencies and paid in U.S. dollars. ADR holders receive foreign tax credits for income tax paid to a foreign country.

**87. D**

A mutual fund prospectus includes fees and expenses, investment objectives, and principal risks of investing in the fund.

**88. A**

$GNP = GDP + \text{Net income inflow from abroad} - \text{Net income outflow to foreign countries}$

**89. A**

Brady bonds are dollar-denominated bonds issued by emerging markets (typically Latin American countries) and collateralized by U.S. Treasuries.

**90. D**

According to the "brochure rule," investment advisers must deliver the brochure to clients not less than 48 hours prior to entering into any written or oral investment advisory contract, or no later than the time of entering into such contract if the client has the right to terminate the contract without penalty within 5 business days after entering into the contract.

**91. A**

A C Corp is subject to double taxation. Earnings are taxed once at the entity level and again at the individual level once distributions have occurred.

**92. D**

Under the provisions of ERISA, a fiduciary is an individual that has discretionary authority or responsibility over retirement plan administration, exercises discretionary authority over retirement plan management, renders investment advice for a fee or other compensation, or exercises authority or control over the disposition of retirement plan assets.

**93. C**

The NASDAQ Composite, Russell 2000, S&P 500, and Wilshire 5000 are value-weighted indexes.

## Practice Exam 2

**94. D**

The standard expiration period for a put or call option is 9 months. Long-term equity anticipation securities (LEAPS) have an expiration period longer than 1 year.

**95. A**

Incentive stock options (ISOs) may be granted to employees only.

**96. C**

In a fixed exchange rate system, a country ties its currency to a basket of other currencies or to another measure of value, such as gold.

**97. D**

Monetary policy is carried out through open market operations, changing the discount rate, and changing the reserve requirements.

**98. B**

Cash flow from operations = Net income + Depreciation – Increase in accounts receivable  
+ Increase in accounts payable

Cash flow from operations = \$660,000 + \$35,000 – \$110,000 + \$120,000 = \$705,000

**99. D**

Securities and Exchange Commission v. W. J. Howey Co. defined an investment contract as "a contract, transaction, or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party." The case led to the "Howey test."

**100. B**

By selling a naked call, the investor is expecting Omikron's stock price to decrease. If the stock increases in value, the investor's potential loss is unlimited.

**101. B**

Sharpe ratio =  $(R_p - R_f) \div S_p$

$0.76 = (R_p - 3.5) \div 9$

$R_p = 10.34\%$

**102. B**

A regulated investment company passes capital gains, dividends, and interest earned on fund investments directly to shareholders so that it is taxed only at the personal level, and double taxation is avoided.

**103. C**

A fidelity bond is a form of insurance protection that covers public consumers for losses that they incur as a result of fraudulent acts by specified individuals, such as employees of a broker-dealer.

**104. D**

The purchase date (January 3rd) is within thirty days of the sale date (December 18th), and is considered a wash sale. This means that no loss deduction is allowed. The amount of the disallowed loss will be added to the cost basis of the shares that Joel purchased on January 3rd.

## Practice Exam 2

### 105. D

For the substantially equal periodic payment (SEPP) exception to the premature distribution penalty, the IRS does not require a reason for taking withdrawals.

### 106. B

$$\text{After-tax return} = 0.18 \times (1 - 0.28) = 12.96\%$$

### 107. D

Security D is the answer by process of elimination. Begin with the securities with a beta of 0.8 and select the one with the highest return. This eliminates security A. Next, compare the securities that have an investment return of 6%, and select the one with the least risk (lowest beta). This eliminates security B. Finally, compare the two securities that remain, C and D. Security D provides a higher return for less risk than security C. Therefore, security D is the investment a rational investor would select.

### 108. D

Stagflation is the result of persistent high inflation combined with high unemployment and a slowing demand for goods and services.

### 109. D

For a profit sharing plan, contributions may be skewed to favor older participants through methods such as age-weighting and cross-testing. The allocation formula cannot be discriminatory.

### 110. A

The Alpha and Treynor ratios assume a diversified portfolio. The Sharpe ratio assumes a non-diversified portfolio.

### 111. C

The two broad categories of defined contribution plans are profit sharing plans and pension plans.

### 112. C

Unlike a 529 plan, funds in a UGMA/UTMA account do not grow tax-deferred. However, the funds in the UGMA/UTMA account do not need to be used to pay for education expenses. The custodian, typically the minor's parent, does not own the assets in the account. Once the account is set up, it's considered to be an irrevocable gift.

### 113. A

According to SEC Rule 506(b), private placements may be sold to an unlimited number of accredited investors and up to 35 non-accredited investors.

### 114. B

There is a 10% penalty on premature distributions from a qualified plan, 403(b) plan, IRA, or SEP.

### 115. B

As bond interest rates decrease, bond duration increases.

## Practice Exam 2

### 116. A

2 quarters – 1 quarter = 1 quarter

An economic recession is defined as a decline in real GDP for 2 or more consecutive quarters.

### 117. C

Secured bonds have a legal claim to specific assets in the event of default, insolvency, or liquidation.

### 118. A

Inferior goods decrease in demand as consumer income increases.

### 119. A

A pre-emptive right is also referred to as a “subscription right” or a “subscription privilege.” It is a right, but not an obligation for existing shareholders to exercise, and it prevents dilution among existing shareholders.

### 120. B

Hybrid REITs combine features of equity REITs and mortgage REITs.

### 121. A

Consolidated tape refers to the high-speed electronic system that reports the latest price and volume data on sales of exchange-listed stocks.

### 122. B

Quick ratio =  $(\text{Cash} + \text{Short-term marketable securities} + \text{Receivables}) \div \text{Current liabilities}$

Quick ratio =  $(\$150,000 + \$90,000 + \$195,000) \div \$200,000 = 2.18$

### 123. C

Cash ratio =  $(\text{Cash} + \text{Short-term marketable securities}) \div \text{Current liabilities}$

Cash ratio =  $(\$150,000 + \$90,000) \div \$200,000 = 1.20$

### 124. D

Being a “solicitor” typically involves soliciting, referring, offering, or negotiating the sale of investment advisory services on behalf of a third party financial adviser for monetary compensation. Both individuals and entities can be considered solicitors, and according to SEC Rule 206(4)-3, the terms of the fee to be paid and solicitor activity being conducted must be documented by a written agreement. Individuals that will solicit on behalf of an RIA firm are often required to not only qualify as an individual IAR, but to also establish his or her own investment advisory firm.

### 125. B

The Trust Indenture Act of 1939 applies to debt securities, such as bonds, debentures, and notes that are offered for public sale. Even though such securities may be registered under the Securities Act, they may not be offered for sale to the public unless a formal agreement between the issuer of bonds and the bondholder conforms to the standards of this act.

## Practice Exam 2

**126. B**

$$\$345,000 \times 15\% = \$51,750$$

The maximum contribution is limited by the annual compensation limit for 2024, which is \$345,000.

**127. D**

Regarding municipal bonds, a good faith deposit is the small amount of money, usually less than 5% of an issue, that underwriters give to the issuer in exchange for the right to place part of the issue.

**128. D**

A fixed income security may be subject to all of the risks listed. This includes systematic risks that are always present (exchange rate risk, purchasing power risk, reinvestment risk), as well as non-systematic risks, such as default risk and liquidity risk.

**129. D**

The fourth market refers to direct institution-to-institution trading, usually done in blocks, without using the service of broker-dealers.

**130. C**

The Insider Trading and Securities Fraud Enforcement Act of 1988 established the policies and procedures commonly referred to as a "Chinese wall."