

Exam : Series-7

**Title : General Securities
Representative Qualification
Examination (GS)**

Vendor : FINRA

Version : V12.35

QUESTION NO: 1

At the time it underlying stock is trading at 48, Bubba buys a listed call option with a \$50 strike price for \$300. At what minimum price must that stock trade for Bubba to recover his investment (ignoring commission and taxes)?

- A. \$45
- B. \$48
- C. \$51
- D. \$53

Answer: D

Explanation:

\$53. The breakeven price on the call is the premium plus the strike price. Since the premium is \$3 per share, the breakeven price is \$53.

QUESTION NO: 2

Bubba buys one XYZ November 65 call at \$3 and one XYZ November 65 put at \$2. XYZ is trading at \$72. The put expires and the call is closed at its intrinsic value.

What is the resulting profit?

- A. \$200
- B. \$300
- C. \$500
- D. \$700

Answer: A

Explanation:

\$200. Since XYZ is trading at 72, a November 65 call has an intrinsic value of \$700. A sale at that value compared to the cost of \$300 is a profit of \$400. Subtract the loss of \$200 on the expired put to obtain the profit of \$200.

QUESTION NO: 3

Which of the following forms of underwriting is least likely for an offering of municipal bonds?

- A. negotiated
- B. competitive bid
- C. firm commitment
- D. best efforts

Answer: D

Explanation:

best efforts. A best efforts deal least likely for a municipal securities offering. It is most often associated with small corporate stock or limited partnership offerings. Municipal securities are usually competitive bid or negotiated. Both of these types are firm commitment.

QUESTION NO: 4

When a corporation dissolves, who gets paid first?

- A. bank lenders
- B. senior bond holders
- C. the tax collector

D. the lawyer

Answer: C

Explanation:

the tax collector. Taxes always have preference over any other creditors.

QUESTION NO: 5

Which of the following is considered a firm quotation in the over-the-counter market?

A. 27.50

B. 27.50 workout

C. 27.50 subject

D. both B and C

Answer: A

Explanation:

27.50. Anytime there is qualifying language attached to a quotation it is not considered firm.

QUESTION NO: 6

Bubba Corporation has a registered public offering of 500,000 shares at \$36. Of these, 300,000 shares were authorized by unissued and 200,000 shares were sold on behalf of an affiliated person.

What is evident from this information?

A. the entire proceeds of the offering are a primary offering accruing to the corporation

B. 300,000 shares are identified as a primary distribution

C. 60% of the proceeds are paid to the corporation and the balance accrues to the affiliated person

D. both B and C

Answer: D

Explanation:

both B and C. The 200,000 shares are sold on behalf of the affiliated person so the proceeds go to that individual. Only the other 300,000 shares are a primary offering.

QUESTION NO: 7

The accounting statement that represents a company's financial position on a particular date is the:

A. income statement

B. balance sheet

C. Profit and Loss

D. cash flow statement

Answer: B

Explanation:

balance sheet. This report reflects the entire condition of the company by showing all assets, liabilities, and components of net worth.

QUESTION NO: 8

A mutual fund letter of intent may permissibly be predated for a period of time up to:

- A. 5 business days
- B. 10 business days
- C. 90 calendar days
- D. 13 months

Answer: C

Explanation:

90 calendar days. An investor has 90 days from the date of original purchase to sign a letter of intent. The maximum duration for the letter is 13 months from the initial purchase.

QUESTION NO: 9

Limited partnerships try to avoid recapture because:

- A. it turns potential capital gains into current taxable income
- B. it may subject the partnership to the add-on tax
- C. it increases the risk of a tax audit
- D. it always increases the investor's tax bracket

Answer: A

Explanation:

it turns potential capital gains into current taxable income. Recapture is taxed as ordinary income, not capital gain. The other choices are not true.

QUESTION NO: 10

Prospective bidders for a municipal bond being issued should consult what document for relevant procedures?

- A. the Eastern account agreement
- B. the official notice of sale
- C. the offering circular
- D. the SEC Registration Statement

Answer: B

Explanation:

the official notice of sale. All bid requirements are found in the official notice of sale.

QUESTION NO: 11

Level III of NASDAQ provides which of the following?

- A. representative quotations
- B. firm quotations
- C. subject markets
- D. workout markets

Answer: B

Explanation:

firm quotations. All Level III quotations are firm.

QUESTION NO: 12

Municipalities are most likely to issue notes for which of the following purposes?

- A. repairs to infrastructure

- B. federal income tax payments
- C. short-term cash needs
- D. long-term financing

Answer: C

Explanation:

short-term cash needs. Notes are generally used for short-term needs.

QUESTION NO: 13

Which of the following are not flat rate taxes?

- A. excise tax
- B. gasoline tax
- C. gift tax
- D. general income tax

Answer: C

Explanation:

gift tax. By definition, gift tax is a progressive tax. All of the others are a level percentage.

QUESTION NO: 14

The practice of positioning stock in response to a customer's order and immediately after marking it up for resale to the customer is:

- A. a factor to consider in the FINRA guideline
- B. a simultaneous transaction
- C. a riskless transaction
- D. all of the above

Answer: D

Explanation:

all of the above. A transaction that is simultaneous and thus riskless calls for a smaller than usual markup under FINRA guidelines.

QUESTION NO: 15

Regulation T is set at 50%. Bubba's account contains long positions in the following securities with the prices listed:

100 ABC \$30

200 XYZ \$70

200 QBB \$40

200 KKK \$25

Total market value = \$30,000

Debit balance in the account = \$12,000

Net equity balance of the account = \$18,000

Bubba wants to buy 100 shares of DUM at \$30 per share and 100 shares of OUT at \$120.

How much how much value of additional securities must Bubba deposit in lieu of depositing cash?

- A. \$3,000
- B. \$6,000

- C. \$9,000
- D. \$15,000

Answer: C

Explanation:

\$9,000. Since the required cash to deposit is \$4,500 and Reg T is 50%, Bubba may deposit \$9,000 of securities.

QUESTION NO: 16

A market-maker has purchased a particular stock over a period of time for prices as high as \$9 per share and as low as \$3 per share. The average cost is approximately \$6 per share. The current NASDAQ quote for the stock is 5 to 5.25. According to the FINRA Conduct Rules, the dealer's offering price to the public should be based upon:

- A. the current market for the stock
- B. \$3
- C. \$9
- D. \$6

Answer: A

Explanation:

the current market for the stock. FINRA rules require the markup to be based upon the current market price.

QUESTION NO: 17

Bubba's order to purchase investment company shares must be executed at a price based upon the net asset value of the shares:

- A. next computed after receipt of the order by the dealer
- B. last computed before receipt of the order by the dealer
- C. computed the previous day at the close of the NYSE
- D. computed the same day the order is received by the dealer

Answer: A

Explanation:

next computed after receipt of the order by the dealer. This is called "forward pricing".

Generally, the price is computed as of the close of the market on the day of the order.

However, if the order is received after this computation, the order is executed based upon the next day calculation.

QUESTION NO: 18

Bubba sells 100 shares of XYZ short at \$58 and buys 1 XYZ Mar 60 Call at \$3.

What is the customer's maximum loss?

- A. \$500
- B. \$100
- C. unlimited
- D. \$5,500

Answer: A

Explanation:

\$500. Bubba sold short at \$58. The call with a strike price of 60, gives him the right to buy back the stock at \$60. If the stock rises, the call can be used to limit the loss to 2 points. Bubba can lose \$200 on the stock. Bubba also paid a \$300 premium. Loss potential is \$500.

QUESTION NO: 19

Bubba Corporation has net income of \$4,200,000. It has 100,000 outstanding shares of 8% preferred stock (\$100 par value) and 400,000 shares of common stock (\$10 par value). What are the earnings per share of common stock?

- A. \$8.50
- B. \$6.00
- C. \$4.20
- D. \$10.50

Answer: A

Explanation:

\$8.50. Subtract the preferred dividend of \$800,000 ($100,000 \times 8\% \times 100$) from the net income. Divide the result of \$3,400,000 ($\$4,200,000 - \$800,000$) by the 400,000 common shares to obtain \$8.50.

QUESTION NO: 20

Under which of the following was SIPC established?

- A. Securities Act of 1933
- B. Securities Exchange Act of 1934
- C. Securities Investor Protection Act of 1970
- D. Securities Exchange Reform Act of 1975

Answer: C

Explanation:

Securities Investor Protection Act of 1970. SIPC was established under this act.

QUESTION NO: 21

Which of the following have a stated interest rate on the face of the certificates?

- A. treasury bills
- B. treasury notes
- C. treasury bonds
- D. both B and C

Answer: D

Explanation:

both B and C. Treasury notes and treasury bonds have stated interest rates. Treasury bills are always sold at a discount to the face amount payable at maturity.

QUESTION NO: 22

Which of the following is not true about US treasury bills?

- A. they are issued at a discount
- B. they are money market instruments
- C. they are issued in denominations of \$1,000 to \$1,000,000

D. they are general obligations of the US government

Answer: C

Explanation:

they are issued in denominations of \$1,000 to \$1,000,000. Remember, the question asks what is "not" true. The smallest denomination for a US treasury bill is \$10,000.

QUESTION NO: 23

Which of the following does not describe an underwriting procedure?

A. best efforts

B. all or none

C. standby

D. fill or kill

Answer: D

Explanation:

fill or kill. Fill or kill is an order qualifier. It requests immediate execution of the whole order or immediate cancellation. A best efforts underwriting, frequently linked to all or none, is usually seen on small new issues. A standby underwriting is utilized to guarantee the success of a rights offering.

QUESTION NO: 24

The Securities Act of 1933 provides for:

A. extension of credit in the securities industry

B. establishment of the Securities and Exchange Commission

C. regulation of new issues of securities

D. all of the above

Answer: C

Explanation:

regulation of new issues of securities. The first two choices are covered in the Securities and Exchange Act of 1934.

QUESTION NO: 25

Which of the following are direct obligations of the US government?

A. Import-Export bank bonds

B. Series EE bonds

C. Farm Credit System bonds

D. both B and C

Answer: B

Explanation:

Series EE bonds. Import-Export bank bonds and Farm Credit System bonds are not direct obligations of the United States.

QUESTION NO: 26

In comparing the premium cost of a LEAPS option with a premium of a traditional option on the same security and same strike price, which of the following is generally true?

- A. the premiums will be approximately the same
- B. the LEAPS premium will be higher than the traditional option premium
- C. the premium for the traditional option will be higher than the LEAPS option premium
- D. LEAPS premiums do not consider time value

Answer: B

Explanation:

the LEAPS premium will be higher than the traditional option premium. Because LEAPS have a longer time until expiration than traditional options, the premium should be higher.

QUESTION NO: 27

Which of the following statements is pertinent to closed-end investment companies?

- A. they are continuously issuing new shares
- B. they are prohibited from issuing any securities other than common stock
- C. their shares are traded at prices determined in the open market
- D. their shares are redeemable at net asset value

Answer: C

Explanation:

their shares are traded at prices determined in the open market. The other choices describe open-end investment companies.

QUESTION NO: 28

A large manufacturing company has current assets of approximately \$9,400,000 and current liabilities of about \$4,900,000.

Which of the following statements is true about the current ratio?

- A. it is substantially below the standard minimum
- B. it is somewhat below the standard minimum
- C. it is about the standard minimum
- D. it is somewhat above the standard minimum

Answer: B

Explanation:

it is somewhat below the standard minimum. The standard minimum current ratio for a manufacturing company is 2 to 1. The current ratio for this company is 1.92 (9,400,000 divided by 4,900,000).

QUESTION NO: 29

The registration requirements of the federal securities acts are intended to protect the public interest by providing for a prospectus on new issues and its review by the SEC.

Which of the following is the true of this process?

- A. It provides the SEC with adequate information on which to base approval for new issues
- B. It does not imply SEC approval of the issue
- C. It guarantees purchasers against an untrue statement of material fact or an omission of material fact
- D. It relieves participating underwriters from any further responsibility for checking essential facts before recommending purchase to the customers

Answer: A

Explanation:

It does not imply SEC approval of the issue. The SEC does not approval an issue. It only attempts to see that sufficient information has been provided from which a proper investment determination may be made.

QUESTION NO: 30

The preferred stock of Greatest Technology Corporation has a \$100 par and is convertible into four shares of common stock. The preferred is trading at 104.50. The preferred is callable at 101. If the common stock price is presently 27.89, which of the following actions would be a successful arbitrage:

- A. purchase 400 shares of common stock and sell 100 shares of preferred stock as "short exempt" (that is, the sale is exempt from the uptick rule)
- B. purchase the preferred stock and sell an appropriate amount of the common stock "short exempt"
- C. purchase both the common and the preferred stocks as a hedge against further market risk
- D. purchase the preferred stock and let it be called, which is inevitable at these market prices

Answer: B

Explanation:

purchase the preferred stock and sell an appropriate amount of the common stock "short exempt". Arbitrage is the nearly simultaneous purchase and sale of equal securities in different markets for a profit. Selling four shares of common stock for every one share of preferred stock purchased provides a profit. The transactions involve the same number of common shares because the preferred is convertible to common at a four to one ratio.

QUESTION NO: 31

Smart Company, Inc., has cash it intends to use in six months for purchase of equipment. The most prudent investment during the six-month period is:

- A. common stock
- B. preferred stock
- C. treasury bills
- D. treasury bonds

Answer: C

Explanation:

treasury bills. The most prudent investment provides the cash in the six-month short-term period. Common and preferred stock are subject to significant price uncertainty. US treasury issues provide the most safety of principal. Treasury bonds have longer maturities than the six-month terms available for treasury bills.

QUESTION NO: 32

Who obtains and pays the municipal bond attorney rendering a legal opinion about the validity of the bond issue?

- A. the purchaser of the bonds

- B. the underwriter
- C. the issuing municipality
- D. the municipality's financial adviser

Answer: C

Explanation:

the issuing municipality. The issuer pays for the attorney.

QUESTION NO: 33

In a best efforts distribution of a new non-exempt issue, a broker/dealer:

- A. may allow a selling concession to a bank or trust company
- B. agrees to buy the issue at a specified price
- C. is not required to use an offering circular or prospectus
- D. acts as an agent for the issuer

Answer: D

Explanation:

acts as an agent for the issuer. In a best efforts offering the investment banker acts as an agent for the issuer and makes no guarantee about selling the securities.

QUESTION NO: 34

Which bond buyer index reflects the lowest average yield for municipal bonds?

- A. the 50-bond index
- B. the 20-bond index
- C. the 11-bond index
- D. the weekly unsold bond index

Answer: C

Explanation:

the 11-bond index. This index is the highest quality index and thus reflects the lowest average yield.

QUESTION NO: 35

XYZ Corporation earned \$2 per share last year and is selling at \$20 per share. If it earns \$3 per share this year and its price/earnings ratio stays the same, its price will be:

- A. \$20
- B. \$25
- C. \$30
- D. \$60

Answer: C

Explanation:

\$30. The current P/E is 10. If earnings are \$3 and the P/E is still 10, the share price equals \$30 (\$3 x 10).

QUESTION NO: 36

In considering the fairness of a firm's markup, the FINRA considers:

- A. dealer cost for the security

- B. financial condition of the client
- C. profitability of the member firm
- D. amount of the transaction

Answer: D

Explanation:

amount of the transaction. The other choices are not FINRA considerations. The dollar amount of the transaction is one of the factors considered in markup fairness. Other factors include the type of security, the amount of service rendered, the unit price of the security, and general availability of the security.

QUESTION NO: 37

The initial Federal Reserve Bank margin requirement is set at 60% and Bubba purchases 100 shares of XYZ at \$100 per share. He deposits \$6,000 of the \$10,000 purchase price in his account.

If XYZ increases in value to \$150 per share, how much excess equity would Bubba have in his account?

- A. \$1,000
- B. \$1,500
- C. \$2,000
- D. \$3,000

Answer: C

Explanation:

\$2,000. Bubba started with \$6,000 of equity and a debit balance of \$4,000. The market value of his XYZ stock increased by \$5,000 (\$15,000 - \$10,000). Therefore, his equity increased to \$11,000. Since Bubba only needs 60% equity, his Reg T requirement is \$9,000 (\$15,000 x 60%). His equity exceeds the requirement by \$2,000.

QUESTION NO: 38

Bubba is opening a margin account with a member organization. He wishes to purchase 100 shares of XYZ at \$15 per share.

What is Bubba's initial cash deposit?

- A. \$375
- B. \$1,050
- C. \$1,500
- D. \$2,000

Answer: C

Explanation:

\$1,500. The NYSE minimum requirement is the lower of \$2,000 or 100% of the account.

QUESTION NO: 39

Regulation T is set at 50%. Bubba's account contains long positions in the following securities with the prices listed:

100 ABC \$30
200 XYZ \$70

200 QBB \$40

200 KKK \$25

Total market value = \$30,000

Debit balance in the account = \$12,000

Net equity balance of the account = \$18,000

What is Bubba's excess equity in the account?

- A. \$3,000
- B. \$18,000
- C. \$12,000
- D. \$0

Answer: A

Explanation:

\$3,000. With Reg T at 50%, Bubba's equity should be half of the \$30,000 account value, which is \$15,000. Since his equity is \$18,000 Bubba has \$3,000 of excess equity.

QUESTION NO: 40

If a customer dies, the registered representative is required to:

- A. cancel all open (good 'til cancelled) orders
- B. await instructions and necessary papers from the executor of the estate
- C. sell out the account
- D. both A and B

Answer: D

Explanation:

both A and B. These describe the activities a registered representative should undertake when a customer dies.

QUESTION NO: 41

Which of the following oil and gas programs does not directly involve drilling?

- A. exploratory
- B. developmental
- C. balanced
- D. income

Answer: D

Explanation:

income. With an income program, the well is already producing. The risk is associated with the commodity price.

QUESTION NO: 42

Which of the following preferred issues is likely to fluctuate most in value?

- A. cumulative preferred
- B. callable preferred
- C. convertible preferred
- D. broker preferred

Answer: C

Explanation:

Convertible preferred. Because of the conversion feature, convertibles are more closely linked to the price of the common stock. In addition, since the dividend rate on convertible preferred is usually lower than other preferred issues, the convertibles are more sensitive to interest rate fluctuations.

QUESTION NO: 43

Distribution from an IRA can begin at age 59½ and must begin by age:

- A. 70½
- B. 65
- C. 68
- D. whenever the individual is retired

Answer: A

Explanation:

70½. This the age at which IRA withdrawals are required.

QUESTION NO: 44

Bubba plans to borrow some money and pledge securities as collateral. Which of the following can he not use as collateral?

- A. Series EE bonds
- B. US treasury bills
- C. US treasury notes
- D. US treasury bonds

Answer: A

Explanation:

Series EE bonds. Because Series EE bonds are not negotiable, they have no collateral value. They cannot be sold back to the US government.

QUESTION NO: 45

Bubba Brokerage Corporation announces through its wire system that it has a large block of stock for sale. Customers purchasing the stock will not pay a commission. The block is crossed on the NYSE floor and is printed on the NYSE tape. This is called a:

- A. special order
- B. exchange distribution
- C. secondary distribution
- D. specialist block purchase

Answer: B

Explanation:

exchange distribution. An exchange distribution is a large block sold internally by one firm that is crossed on the floor of the exchange. The trade would print on the tape identified by the letters "DIST".

QUESTION NO: 46

Which of the following are considered to be discretionary orders under the FINRA Rules of

Fair Practice?

- A.** a customer instructs her registered representative to purchase stock in XYZ whenever the representative deems the price to be right
- B.** a customer instructs her registered representative to sell 300 shares of ABC that is long in her account whenever the representative thinks the time and price are appropriate
- C.** a customer gives a member firm a check for \$25,000 and instructs the firm to purchase bank stocks and insurance company stocks when the prices appear to be favorable
- D.** both A and C

Answer: D

Explanation:

both A and C. Choice A is discretionary because the customer did not specify a quantity to purchase. Choice B only provides discretion about timing and thus is not discretionary. Choice C is clearly discretionary.

QUESTION NO: 47

In a monthly review of customer statements, Bubba notices that one of his firm's clients has paid for seven purchases five days late.

What does he do?

- A.** decides this situation is acceptable provided payment was received before any securities were sold
- B.** ascertains whether the client had a sufficient bank balance on settlement date
- C.** nothing because this is not a violation provided the securities were not listed on the NYSE
- D.** ascertains that extensions had been obtained under Reg T

Answer: D

Explanation:

ascertains that extensions had been obtained under Reg

T. If valid reasons exist, extension of time for payment may be obtained.

QUESTION NO: 48

Which securities do not receive dividends?

- A.** ADRs
- B.** warrants
- C.** common stock
- D.** preferred stock

Answer: B

Explanation:

warrants. All of the other choices receive dividends if they are declared. But only warrants are a specific security that never pays dividends.

QUESTION NO: 49

Which of the following does not appear in a municipal syndicate letter to underwriters?

- A.** the specific bid and offering terms of the issue
- B.** the amount of each member's participation
- C.** the extent of the manager's authority in directing the offering

D. the duration of the syndicate account

Answer: A

Explanation:

the specific bid and offering terms of the issue. The bid and offering terms are determined after the syndicate letter to underwriters.

QUESTION NO: 50

Bubba buys a 5% bond that matures in 15 years with a 5.10 basis. How much did he pay for the bond?

A. 5.00

B. 98.96

C. 100.00

D. 105.10

Answer: B

Explanation:

98.96. A calculator is not required for this. Even Bubba knows the bond is obviously trading at a slight discount by yielding 5.10% instead of the coupon rate of 5%. If the yield was the same as the coupon rate, the price is 100.00.

QUESTION NO: 51

Bonds are most often quoted as a percentage of:

A. face value

B. book value

C. market value

D. whatever value the broker says

Answer: A

Explanation:

face value. The price is 100.00 if the yield is the same as the coupon rate. A price of less than 100.00 means the yield is higher than the coupon rate. A price of more than 100.00 means the yield is lower than the coupon rate. The prices are a percentage of 100.00. However, treasury bonds and municipal bonds are not quoted in this way.

QUESTION NO: 52

Bubba is a registered representative who wishes to buy shares of a new issue his firm is distributing. Under FINRA Conduct Rules, Bubba may:

A. not do so under any circumstance

B. do so if he has a history of buying hot issues

C. not do so for his own account, but may purchase shares for his sister's account

D. do so if his allotment is insubstantial and not disproportionate to public orders

Answer: A

Explanation:

not do so under any circumstance. New issues may not be distributed to Bubba or members of his immediate family.

QUESTION NO: 53

A CMO is issued that has three tranches. One has an average life of 2 years. A second has an average life of 10 years. The third has an average life of 30 years. Initially, interest payments are distributed in this order:

- A. first to the holders of the 2-year tranche
- B. first to the holders of the 10-year tranche
- C. first to the holders of the 30-year tranche
- D. equally to all CMO holders of any tranche

Answer: D

Explanation:

equally to all CMO holders of any tranche. All bondholders share equally in the interest payments. Only principal payments are directed to the owners in each tranche in sequential order.

QUESTION NO: 54

The FINRA Conduct Rules permit a transaction made "seller's option" to be delivered earlier than the expiration of the contract if:

- A. the buyer is given one-day notice in writing
- B. the seller is located in New York City
- C. the client requests it
- D. the buyer is a non-clearing member

Answer: A

Explanation:

the buyer is given one-day notice in writing. A contract made on a "seller's option" may be terminated by the seller at an earlier date, provided that he gives the buyer one-day notice.

QUESTION NO: 55

Which of the following is not usually an additional function of a mutual fund's custodial bank?

- A. transfer agent
- B. investment advisor
- C. registrar
- D. dividend disbursing agent

Answer: B

Explanation:

investment advisor. The custodial bank is usually also selected for other functions, but not as investment advisor. That assignment is generally performed by a special advisory firm or the mutual fund management company.

QUESTION NO: 56

On which of the following is depreciation permitted?

- A. rental property whose value is declining
- B. residential property not used for business
- C. property whose maintenance exceeds the investment credit
- D. equipment subject to recapture

Answer: B

Explanation:

residential property not used for business. Depreciation is only permitted on income-producing property.

QUESTION NO: 57

Feasibility studies and engineering surveys are most necessary prior to which of the following new offerings?

- A. general obligation bonds
- B. limited tax bonds
- C. revenue bonds
- D. corporate debentures

Answer: C

Explanation:

revenue bonds. The security for a revenue bond depends on the revenue produced by the specific facility. Engineering estimates of constructions costs and potential traffic flow are critical.

QUESTION NO: 58

Which of the following is not a characteristic of treasury bills?

- A. they are quoted on yield-to-maturity percentages
- B. their payments are exempt from state income tax
- C. the bid price is higher than the offer price
- D. they mature one to three years from the date of issuance

Answer: D

Explanation:

they mature one to three years from the date of issuance. Remember the question asks what is "not" a characteristic of treasury bills. The other choices are aspects of treasury bills, which most commonly have maturities of 90 days but never longer than one year.

QUESTION NO: 59

Under what circumstances may a registered investment company change its investment objective?

- A. after SEC approval
- B. after it obtains a new charter from the state secretary
- C. after approval by a majority vote of the shareholders
- D. after providing notice that is recorded in the Federal Register

Answer: C

Explanation:

after approval by a majority vote of the shareholders. All vital interests of the shareholders are subject to their majority vote.

QUESTION NO: 60

Bubba holds 200 shares of common stock in a utility company and receives rights to

subscribe to an additional 100 shares at \$20. The utility company is raising \$40 million of new capital.

How many shares of common stock for the utility company were outstanding prior to the rights offering?

- A. 2,000,000
- B. 4,000,000
- C. 1,000,000
- D. 40,000,000

Answer: B

Explanation:

4,000,000. Bubba owns 200 shares and receives rights for 100 more. The basis for the rights offering is therefore one new share for each two shares outstanding. The utility company is raising \$40 million by selling shares at \$20. Therefore, the company is selling 2,000,000 new shares. Since the ratio of existing shares to new shares is 2 to 1, there must be 4,000,000 presently outstanding shares.

QUESTION NO: 61

What rate of return takes into consideration appreciation or depreciation in market value relating to the par value of a debt security?

- A. current yield
- B. yield to maturity
- C. nominal yield
- D. basis yield

Answer: B

Explanation:

yield to maturity. The premium or discount in the security price relative to par value is considered when computing the yield to maturity.

QUESTION NO: 62

How many days after the settlement date must a broker/dealer "buy in" a customer who has failed to deliver securities?

- A. 10 days
- B. 15 days
- C. 30 days
- D. 45 days

Answer: A

Explanation:

10 days. The customer has 10 days to deliver before the broker will buy in the account.

QUESTION NO: 63

A short sale can be made in which of the following types of accounts?

- A. special cash account
- B. a custodian account
- C. margin account

D. special memorandum account

Answer: C

Explanation:

margin account. A margin account is required for short sales.

QUESTION NO: 64

Which of the following activities by a limited partner may subject the partner to unlimited liability?

- A. participating in management of the partnership
- B. committing the partnership in any manner
- C. making loans beyond those specified in the partnership agreement
- D. all of the above

Answer: D

Explanation:

all of the above. Each of these actions by a limited partner causes the loss of limited liability.

QUESTION NO: 65

In which of the following is not a case where a deed to a condominium qualifies as a security?

- A. the seller intends to profit
- B. there is management by someone other than the owner
- C. there is a time and space rental pool
- D. there is a 14-day owner usage provision

Answer: D

Explanation:

there is a 14-day owner usage provision. This provision is unrelated to qualification as a security.

QUESTION NO: 66

What percentage load is associated with a mutual fund quoted 16.60-18.04?

- A. 8.7%
- B. 9%
- C. 8%
- D. cannot be determined from this information

Answer: C

Explanation:

8%. The sales charge in this case is \$1.44. Dividing that into the offering price of \$18.04 results in 8%.

QUESTION NO: 67

A registered representative is given a limited trading authorization by a client. This permits the representative to:

- A. withdraw money from the account
- B. enter orders for the account at the representative's discretion

- C. withdraw securities from the account
- D. all of the above

Answer: B

Explanation:

enter orders for the account at the representative's discretion. A limited trading authorization only allows for entering of orders. A full trading authorization would also permit withdrawals from the account.

QUESTION NO: 68

The return by the receiving party of securities previously accepted for delivery or a demand by the delivering party for return of securities that have been delivered is called:

- A. rejection
- B. close-out
- C. reclamation
- D. re-delivery

Answer: C

Explanation:

reclamation. In a reclamation a dealer requests that another dealer reclaim an improper delivery.

QUESTION NO: 69

An excerpt from a recent tombstone ad reveals bonds offered publicly at 101. Why were they priced at a premium?

- A. to enable investors to establish a tax loss when the bonds are redeemed at maturity
- B. to reflect prevailing credit ratings and market conditions for the issuer
- C. to provide the issuer with a larger deduction from pre-tax earnings for higher than usual interest payments
- D. to comply with SEC rules mandating such pricing for debt issues maturing in the year 2000 and thereafter

Answer: B

Explanation:

to reflect prevailing credit ratings and market conditions for the issuer. Premiums or discounts are used in bond offerings to bring the yield in line with current market conditions.

QUESTION NO: 70

A dealer buys 100 shares of XYZ common, which is an actively traded stock, at 23.50. Three days later, when XYZ common is quoted at 19.50 - 19.75, he sells the 100 shares to a customer.

The basis for the dealer's markup is:

- A. 10 5/8
- B. 19 7/8
- C. 23 1/2
- D. 5% above cost

Answer: B

Explanation:

19 7/8. The markup is always based on the current market price, not upon cost. Therefore, the markup is based on the offering side of the current quotation.

QUESTION NO: 71

When depositors withdraw money from savings institutions to invest in US treasury securities, this is called:

- A. the multiplier effect
- B. disintermediation
- C. reverse repo
- D. open market operations

Answer: B

Explanation:

disintermediation. An easier word would be preferable, but that's the correct term.

QUESTION NO: 72

Revenue bonds are least likely to provide constructions funds for:

- A. a toll highway
- B. an airport
- C. a public school
- D. a pollution control facility

Answer: C

Explanation:

a public school. Schools are typically financed by general obligation bonds. The other choices are examples of revenue bonds.

QUESTION NO: 73

An advertisement for a CMO security by a member of FINRA should disclose which of the following?

- A. the exact yield investor will earn
- B. the yield based upon the prevailing discount rate
- C. that the stated yield is an estimate that may vary passed upon prepayments and market factors
- D. that the yield may be greater than the stated percentage but never less

Answer: C

Explanation:

that the stated yield is an estimate that may vary passed upon prepayments and market factors. The only guarantee is that nothing is guaranteed, especially the yield.

QUESTION NO: 74

In a firm commitment offering, any shares that are not sold are:

- A. returned to the issuing corporation
- B. listed in the over-the-counter market
- C. transferred to treasury stock

D. owned by the members of the syndicate

Answer: D

Explanation:

owned by the members of the syndicate. In a firm commitment the underwriter buys the securities from the issuing company. If they don't sell to the public, they are owned by the underwriters.

QUESTION NO: 75

Which of the following best describes depreciation?

- A. a tax credit available to investors in heavy equipment**
- B. deductions from gross income to offset lower value of equipment**
- C. return of principal from real estate investments**
- D. capitalized and amortized maintenance costs**

Answer: B

Explanation:

deductions from gross income to offset lower value of equipment. The cost of equipment is deducted from gross income over the life of the equipment, as its value declines.

QUESTION NO: 76

What is the possible reward for investing in raw land?

- A. deferred income**
- B. large deductions**
- C. potential capital appreciation**
- D. lack of investment risk**

Answer: C

Explanation:

potential capital appreciation. This is the only correct choice. Any income is not deferred, raw land cannot be depreciation for a large deduction, and there is substantial risk.

QUESTION NO: 77

Under what conditions may an FINRA member firm sell an IPO to an employee of another broker/dealer?

- A. if the amount of the purchase is small and the transaction accords with the employee's normal investment practice**
- B. if the member firm notifies the other broker/dealer of the transaction**
- C. if the employing broker/dealer guarantees that resale of the securities acquired by its employee will be restricted for two years**
- D. under no circumstances**

Answer: D

Explanation:

under no circumstances. An FINRA member firm may not, under any circumstances, allocate shares to itself, any of its employees, or to any employee of a firm that underwrites securities.

QUESTION NO: 78

In which of the following situations may exemption from compliance with Regulation T be granted?

- A. a broker/dealer who does not offer margin accounts
- B. a broker/dealer conducts business only in registered securities
- C. a broker/dealer transacting less than 10% of its business through a member of a securities exchange
- D. none of the above

Answer: D

Explanation:

none of the above. No broker/dealer is exempt. Reg T covers cash accounts as well as margin accounts.

QUESTION NO: 79

Bubba is buying a treasury bill. The discount he receives results in Bubba's determination of:

- A. face value
- B. nominal yield
- C. rate of return
- D. yield to call

Answer: C

Explanation:

rate of return. Because T-bills pay no interest, Bubba's rate of return is the discount as a percentage of the face value he receives at maturity.

QUESTION NO: 80

Bubba has several accounts at a brokerage firm. Which of the following is not covered by SIPC?

- A. individual account in Bubba's name only
- B. commodities account in Bubba's name only
- C. joint account of Bubba and his wife
- D. joint account of Bubba and his son, Bubba, Jr.

Answer: B

Explanation:

commodities account in Bubba's name only. SIPC does not cover commodities accounts.

QUESTION NO: 81

Which of the following is least relevant in evaluating the safety of a general obligation bond?

- A. per capital debt
- B. total GO debt as a percentage of market value of property
- C. total GO debt as a percentage of assessed value of property
- D. total debt service as a percentage of net operating revenue

Answer: D

Explanation:

total debt service as a percentage of net operating revenue. This ratio is applicable to revenue bonds but not general obligation bonds. The other choices are all used in measuring

credit risk in a GO bond.

QUESTION NO: 82

Which of the following does not appear in the official notice of sale?

- A. method and place of settlement
- B. denominations and registration privileges
- C. an offering scale of serial maturates
- D. amount of good faith check required

Answer: C

Explanation:

an offering scale of serial maturates. The scale is set by the successful bidder.

QUESTION NO: 83

Interest rates rise from 5.10% to 5.30%. For a prospective buyer of five \$1,000 bonds, what is the increase in interest payments as a result of the rise?

- A. \$20
- B. \$100
- C. \$2
- D. \$10

Answer: D

Explanation:

\$10. Interest rates increased by 20 basis points. One basis point is 10 cents. So 20 basis points is \$2. But...since there are five bonds, that $\$2 \times 5 = \10 .

QUESTION NO: 84

Which of the following best describes phantom income?

- A. income from deductions and tax credits
- B. the non-taxable portion of a distribution
- C. income received but not reported
- D. income reported but not received

Answer: D

Explanation:

income reported but not received. Reportable income that is not distributable includes loan forgiveness.

QUESTION NO: 85

When a member firm buys or sells securities directly as principal with a public customer, it is acting as:

- A. a dealer
- B. a broker
- C. an agent
- D. none of the above

Answer: A

Explanation:

a dealer. When a firm does business directly with a customer, it is acting as a dealer. When it represents a customer, it is acting as a broker.

QUESTION NO: 86

CMOs are sold and priced based upon which of the following:

- A. expected average life
- B. stated maturity
- C. current yield
- D. par value

Answer: A

Explanation:

expected average life. The average life of a CMO is the length of time that each dollar of invested principal is expected to remain outstanding. Pricing of CMOs is based upon this factor.

QUESTION NO: 87

Bubba Corporation owes income tax. Which of the following may be tendered at par value for payment of the tax?

- A. term bond
- B. tax anticipation bill
- C. special tax bond
- D. pre-issue bond

Answer: B

Explanation:

tax anticipation bill. These are specifically designated securities that may be used at face value for payment of corporate taxes.

QUESTION NO: 88

Bubba owns 100 shares of XYZ at \$58. He needs to limit his loss to 5 points or less and will accept a longer time for the order to be executed, to make sure the loss does not exceed 5 points.

Which of the following orders would be the best recommendation?

- A. sell limit order
- B. sell stop-limit order
- C. sell stop order
- D. buy stop order

Answer: B

Explanation:

sell stop-limit order. A sell stop-limit order specifies a price, but will not turn into a market order. This order will only get executed at the price or better. Stop orders, although quicker in execution, will turn into market orders and the customer will not be guaranteed a specific price. Stop -limit orders are risky, in that the order may or may not get executed, but in this situation, it is the best choice.

QUESTION NO: 89

An investor purchasing a corporate bond regular way will have to pay the contracted price plus accrued interest:

- A. up to and including the trade date
- B. up to but not including the trade date
- C. up to but not including the settlement date
- D. up to but including the settlement date

Answer: C

Explanation:

up to but not including the settlement date. Accrued bond interest is always calculated up to but not including the settlement date. The interest accrual begins on the coupon date.

QUESTION NO: 90

Which of the following pairs of corporation characteristics are easiest for a partnership to avoid?

- A. business objective and centralized management
- B. continuity of life of the business and limited liability
- C. two or more associates and free transferability of assets
- D. continuity of life of the business and transferability of assets

Answer: D

Explanation:

continuity of life of the business and transferability of assets. Partnerships may seek to avoid continuance of the business life and asset transfer. The other choices are too important for partnerships to sacrifice.

QUESTION NO: 91

Which of the following price quotes is representative of a treasury bill?

- A. 98.9 - 100
- B. 96 - 96½
- C. 5.78 - 5.73
- D. 5.55 - 5.75

Answer: C

Explanation:

5.78 - 5.73. Prices for treasury bills are quoted as percentage yields. A quotation in yield means the first price in the spread - the bid price - should be higher than the offer price. A higher yield means a lower price.

QUESTION NO: 92

A company may pay a declared dividend in which of the following ways:

- A. with stock in a subsidiary company
- B. with property
- C. with cash
- D. all of the above

Answer: D

Explanation:

all of the above. Dividends can be paid in all of these ways. They can also be paid with treasury stock or authorized but unissued stock.

QUESTION NO: 93

For an FINRA member firm to exercise discretionary power in any customer account requires written authorization by that customer except when:

- A. the customer is a spouse of the registered representative
- B. the customer has given an oral approval after the transaction
- C. only time and price of execution are involved
- D. both B and C

Answer: C

Explanation:

only time and price of execution are involved. The only exception to the discretionary rule is when the customer gives discretion regarding time and price of execution.

QUESTION NO: 94

An issuer is most likely to request an investment letter from the purchaser in connection with which of the offerings?

- A. a hot issue
- B. a mutual fund
- C. a private placement
- D. an exempt security

Answer: C

Explanation:

a private placement. Normally, private placements are conducted with an investment letter.

QUESTION NO: 95

Which are the primary considerations in evaluating the worth of a limited partnership?

- A. the size of the tax deductions
- B. the cost of assets
- C. the adequacy of funding
- D. both B and C

Answer: D

Explanation:

both B and C. The size of tax deductions is not a "primary" consideration.

QUESTION NO: 96

A syndicate manager has just been informed that its bid has been accepted and all syndicate members are duly notified. Public information on the award will be most quickly available from:

- A. the Blue List
- B. the daily Bond Buyer
- C. the Wall Street Journal

D. Munifacts**Answer: D**

Explanation:

Munifacts. This is a wire service provided by the daily Bond Buyer. It displays information on municipal traders, underwriters, and other participants in the fixed income markets.

QUESTION NO: 97

Big Easy Investment Banking, Inc., participates in a Western account underwriting of \$10 million of municipal bonds by agreeing to underwrite 10% of the issue. One week later, \$4 million remains unsold but Big Easy has distributed \$1.5 million of bonds.

What is the liability of Big Easy remaining in the account?

- A. \$0
- B. \$400,000
- C. \$600,000
- D. \$1,000,000

Answer: D

Explanation:

\$1,000,000. In a Western account, each underwriter has divided liability and each is responsibility only for his respective part. In this case, Big Easy is responsible for 10% of \$10,000,000 - or \$1,000,000.

QUESTION NO: 98

When opening a brokerage account for a customer, a registered representative must determine the customer's:

- A. investment objectives
- B. financial resources
- C. financial requirements
- D. all of the above

Answer: D

Explanation:

all of the above. All of the choices are required information for the registered representative to obtain.

QUESTION NO: 99

How often must Investment companies issue financial statements to shareholders?

- A. monthly
- B. quarterly
- C. semi-annually
- D. annually

Answer: C

Explanation:

semi-annually. Investment companies are required to issue financial report semi-annually. Many do so more frequently.

QUESTION NO: 100

Bubba owns stock with cumulative voting rights. There are five vacancies on a board and he owns 100 shares of stock. Bubba is entitled to cast the following votes:

- A. a total of 100 votes
- B. a total of 100 votes per
- C. a total of 500 votes
- D. you are not allowed to vote

Answer: C

Explanation:

500 votes. Under cumulative voting, the number of directors is multiplied by the number of shares owned. The votes may be cast all for a single director or divided in any manner among the directors.

QUESTION NO: 101

After an extended period of backing and filling, a stock moves up sharply through a resistance level on heavy volume. A technical analyst would likely call this a:

- A. buy-in
- B. technical rally
- C. buying climax
- D. breakout

Answer: D

Explanation:

breakout. An upward move through a resistance level that is confirmed by heavy volume is called a breakout.

QUESTION NO: 102

Bubba opens a new account with a broker/dealer and asks for a copy of the firm's financial statement. If the firm has not been subject to a formal audit by an independent public accountant for quite some time, what should it do in response to the request?

- A. give Bubba its latest available statement
- B. wait until after the next audit is completed before providing a statement to Bubba
- C. delay sending a statement until Bubba has had an account with the firm for at least six months
- D. refuse to provide a financial statement

Answer: A

Explanation:

give Bubba its latest available statement. Bubba, like any customer, must be provided with the most recent available information.

QUESTION NO: 103

Bubba owns 200 shares of XYZ at \$90, and wishes to hedge the position while generating income.

What is the best recommendation?

- A. sell calls

- B. sell puts
- C. buy calls
- D. buy puts

Answer: A

Explanation:

sell calls. Calls are covered by the underlying stock. If the calls were exercised, the stock would be delivered to meet the obligation. The income also reduces the break-even of the stock.

QUESTION NO: 104

The price an investor pays for a listed option is called the

- A. strike price
- B. spread
- C. premium
- D. exercise price

Answer: C

Explanation:

premium. That's the term for the option cost.

QUESTION NO: 105

Which of the following is not true about brokerage accounts?

- A. in a community property state, a married woman must open a brokerage account with her husband
- B. stock purchased in a custodian account may not be purchased on margin or held in bearer form
- C. numbered accounts are permissible provided there is a record kept on file at the brokerage firm attesting to the actual ownership
- D. if a fiduciary intends to buy stocks in a margin account the trust agreement authorizing the margin transactions must be kept on file at the brokerage firm

Answer: A

Explanation:

in a community property state a married woman must open a brokerage account with her husband. All of the other choices are true. Only choice A is "not" true.

QUESTION NO: 106

An ERISA benefits plan qualified under Section 401(a) of the Internal Revenue Code may:

- A. purchase any IPO security provided the plan is not sponsored solely by a broker/dealer
- B. apply for an exemption
- C. only purchase securities rated "A" or better
- D. purchase only securities issued by the state or federal government

Answer: A

Explanation:

purchase any IPO security provided the plan is not sponsored solely by a broker/dealer. An ERISA plan that is qualified under Section 401(a) may purchase any IPO security provided

that the plan sponsor is not a broker/dealer.

QUESTION NO: 107

An offering price of 102 plus accrued interest applies to which of the following securities?

- A. treasury bills
- B. certificates of deposit
- C. commercial paper
- D. banker's acceptances

Answer: B

Explanation:

certificates of deposit. CDs trade with "accrued interest" as part of the price.

QUESTION NO: 108

Bubba opens an account at a broker/dealer with instructions to "transfer and ship". This means that:

- A. all correspondence to Bubba must be sent registered mail
- B. each trade report must note Bubba's certificate registration instructions
- C. securities purchased must be registered in Bubba's name and then delivered to him
- D. transactions for Bubba will be transferred to another broker for processing

Answer: C

Explanation:

securities purchased must be registered in Bubba's name and then delivered to him. Bubba is requesting delivery of securities in his name instead of being held by the broker.

QUESTION NO: 109

Regulation T is set at 50%. Bubba's account contains long positions in the following securities with the prices listed:

100 ABC \$30

200 XYZ \$70

200 QBB \$40

200 KKK \$25

Total market value = \$30,000

Debit balance in the account = \$12,000

Net equity balance of the account = \$18,000

Bubba wants to buy 100 shares of DUM at \$30 per share and 100 shares of OUT at \$120.

How much additional money must be deposited?

- A. \$6,000
- B. \$7,000
- C. \$4,500
- D. \$1,500

Answer: C

Explanation:

\$4,500. The purchase of DUM will cost \$3,000 (100 x \$30) and the purchase of OUT will cost \$12,000 (100 x \$120). Both combined total a cost of \$15,000. Reg T requires 50% (\$7,500)

and Bubba only has \$3,000. So he is \$4,500 short.

QUESTION NO: 110

Which of the following best describes depreciation?

- A. tax credit available to investors in heavy equipment
- B. deductions from gross income to offset lower value of equipment
- C. return of principal from real estate investors
- D. capitalized and amortized maintenance costs

Answer: B

Explanation:

deductions from gross income to offset lower value of equipment. Depreciation is the deduction of costs for capital assets as their value declines.

QUESTION NO: 111

Which of the following is not a practice of a mutual fund custodian?

- A. changing shareholder registrations on the fund's records
- B. disbursing dividends and capital gains to the fund's shareholders
- C. lending the fund's securities to banks or broker/dealers
- D. maintaining sales records for the fund's underwriter

Answer: C

Explanation:

lending the fund's securities to banks or broker/dealers. This practice is not permitted under federal law.

QUESTION NO: 112

A mutual fund with an 8% load and a 1% redemption fee carries a current quote of \$6.25 - \$6.79. If an investor has tendered his shares for redemption on that basis, the per share price he will receive is approximately:

- A. \$6.79
- B. \$6.72
- C. \$6.25
- D. \$6.19

Answer: D

Explanation:

\$6.19. The fund has a redemption fee of 1%. This is about 6 cents based upon the bid price. Subtracting that from the \$6.25 bid results in \$6.19.

QUESTION NO: 113

For what time period does a Form 144 remain in effect?

- A. 30 days
- B. 60 days
- C. 90 days
- D. one year

Answer: C

Explanation:

90 days. To avoid a forced sale, stock may be sold under Rule 144 over a 90-day period.

QUESTION NO: 114

A leveraged company is best described as one that has a small portion of its capitalization represented by:

- A. common stock
- B. preferred stock
- C. debentures
- D. convertible bonds

Answer: A

Explanation:

common stock. Leverage refers to the existence of securities that are senior to common stock. There can be debt leverage and equity leverage.

QUESTION NO: 115

A tax shelter specifically designed for small employers is:

- A. an IRA
- B. a SIMPLE
- C. a subsidized deferral plan
- D. a Shelter Island plan

Answer: B

Explanation:

a SIMPLE. IRAs are for any individuals, not just small employers. The other choices do not exist.

QUESTION NO: 116

Bubba buys a 5% municipal bond maturing in 15 years that is trading at a market price of 85 . What is the nominal yield?

- A. 5.88%
- B. 5.1%
- C. 5.00%
- D. cannot be determined

Answer: C

Explanation:

5.00%. The nominal yield is the coupon rate on the bond.

QUESTION NO: 117

Which of the following securities provides the longest term of option privilege?

- A. puts
- B. calls
- C. warrants
- D. rights

Answer: C

Explanation:

warrants. All of the others always have fixed maturity dates. Warrants often have no finite life and, if they do, it is a very long time.

QUESTION NO: 118

In the offering of new securities, members of the syndicate are permitted to sell to other dealers less the reallowance. The amount of the reallowance is determined by:

- A. the FINRA
- B. the issuing corporation
- C. the syndicate manager
- D. the SEC

Answer: C

Explanation:

the syndicate manager. The reallowance as well as the selling concession given to selling group members are determined by the managing underwriters.

QUESTION NO: 119

Under a leaseback arrangement used to finance construction of local schools, who is the issuer of the municipal bonds?

- A. the state in which the schools are located
- B. the local school district
- C. a legal authority created for this purpose
- D. a public housing authority commissioned by the federal government

Answer: C

Explanation:

a legal authority created for this purpose. Bonds with a leaseback arrangement are issued by a specially created entity.

QUESTION NO: 120

Big Guns Municipal Bond Dealer Corporation buys 100M of 7% 20-year GO bonds at par. The bonds are marked up and immediately re-offered for sale.

Which of the following re-offering prices would probably be deemed excessive?

- A. 6.8% net
- B. 6.9% less 0.5
- C. \$100.75
- D. 5.00% net

Answer: D

Explanation:

5.00% net. The other quotes indicate moderate markups over cost. A quote of 5% net indicates a large markup and a price not "reasonably related to the market". The dollar price would be about \$125, a 25% markup over the dealer's cost.

QUESTION NO: 121

Which of the following is available both to owners of stock and owners of limited partnership

participations?

- A. deduction of business expenses from income
- B. a share in the profits from earnings
- C. tax credits
- D. deductions for losses in excess of income earned

Answer: B

Explanation:

a share in the profits from earnings. Both shareholders and limited partners share in the profits from earnings.

QUESTION NO: 122

Which of the following receives the highest priority of a municipal bond trustee when applying income and revenue derived from a financed toll facility?

- A. renewal and replacement fund
- B. operation and maintenance fund
- C. bond service account fund
- D. reserve maintenance fund

Answer: B

Explanation:

operation and maintenance fund. This receives the top priority followed by debt service, maintenance reserves, and lastly renewal and replacement.

QUESTION NO: 123

A NYSE floor member executing an order for a public customer asks the specialist in the stock to guarantee a price while giving the customer an opportunity to obtain a better price. This procedure is known as:

- A. a stop order
- B. stopping stock
- C. floor protection
- D. a special deal

Answer: B

Explanation:

stopping stock. This is the definition of the term "stopping stock".

QUESTION NO: 124

A corporation makes a rights offering to raise \$10 million of new capital by issuing one million shares of common stock. If it already has six million shares outstanding at the time of the offering.

What subscription ratio is the corporation establishing for each new share?

- A. 6 rights per share
- B. 10 rights per share
- C. 6 million rights per share
- D. 10 million rights per share

Answer: A

Explanation:

6 rights per share. Each share receives a right and there are six million shares receiving rights to one million new shares. So six rights are required for one share.

QUESTION NO: 125

What type of security is quoted with a bid price of 4.72 and an asking price of 4.68?

- A. US treasury note
- B. US treasury bill
- C. US treasury bond
- D. Series H bond

Answer: B

Explanation:

US Treasury bill. T-bills are quoted by yield. Therefore, the bid is higher than the asking price. A higher yield means a lower price.

QUESTION NO: 126

The market theory stating that the small investor is usually wrong is called the:

- A. advance-decline theory
- B. odd-lot theory
- C. Dow theory
- D. short interest theory

Answer: B

Explanation:

The market theory stating that the small investor is usually wrong is called the odd-lot theory. The concept behind this theory is that when small lot sales are high, it is a good time to buy, as a high ratio of odd business sales is a contrary indicator of market direction.

QUESTION NO: 127

Which of the following statements incorrectly describes US securities markets?

- A. a capital market comprised of long-term debt and equity issues
- B. a money market comprised of short-term debt and equity issues
- C. a municipal market comprised of tax-exempt issues of state and local governments
- D. a government and agency market comprised of both short-term and long-term debt issues

Answer: B

Explanation:

a money market comprised of short-term debt and equity issues. This is the statement that is "incorrect". Equity issues are not traded in the money market, which consists only of high-quality short-term debt securities.

QUESTION NO: 128

When a corporation issues a nonconvertible debenture, what is the effect upon its net worth?

- A. it increases
- B. it decreases
- C. it is unchanged

D. none of the above

Answer: C

Explanation:

it is unchanged. The debentures add to liabilities and to cash (an asset) received from the sale. There is no effect on net worth.

QUESTION NO: 129

Which of the following sets of prices is that of a closed-end investment company?

A. \$7.50 \$8.10

B. \$10.10 \$11.00

C. \$28.14 \$27.75

D. \$20.15 \$21.85

Answer: C

Explanation:

NAV=\$28.14 and Asked Price=\$27.75. In this case the ask price is less than NAV, which is never true of an open-end investment company.

QUESTION NO: 130

A mutual fund custodian is paid according to which of the following specifications when receiving deposits from a shareholder's reinvestment plan?

A. a commission for each share purchased

B. a percentage of the sales charge

C. a processing fee

D. a percentage of the fund's net asset value

Answer: C

Explanation:

a processing fee. Many custodian banks charge the custodian fee to the mutual fund rather than the individual shareholder.

QUESTION NO: 131

Service charges by a FINRA dealer for transfer and safekeeping of customer securities held in street name:

A. may not be levied under FINRA Conduct Rules

B. may not be levied unless there is no trading in the account for more than six months

C. may be levied only if the security has a value of less than \$5,000

D. may be levied only if the charge is fair, reasonable, and non-discriminatory

Answer: D

Explanation:

may be levied only if the charge is fair, reasonable, and non-discriminatory. This is the standard in the FINRA rules.

QUESTION NO: 132

When pricing callable municipal bonds, the "price to call" is based upon which of the following?

- A. in-whole calls
- B. partial calls
- C. sinking fund calls
- D. catastrophe calls

Answer: A

Explanation:

in-whole calls. Price to call computations are based upon in-whole calls only. These calls will result in all bondholders being called simultaneously, thus guaranteeing a minimum yield to all.

QUESTION NO: 133

The Bubba Insurance Company is not incorporated. It consists of Bubba and his two brothers as general partners, who maintain an active securities account in the name of the company. If one of the partners should suddenly die, what course of actions should be undertaken by the registered representative at the brokerage?

- A. freeze the account from further activity until a death certificate and new partnership agreement are furnished to the brokerage
- B. no special action is required because the death of a single partner does not terminate the partnership agreement
- C. distribute the assets in the account to the surviving partners
- D. execute sell orders but do not accept buy orders or distribute assets from the account until a new partnership agreement is provided to the brokerage

Answer: D

Explanation:

execute sell orders but do not accept buy orders or distribute assets from the account until a new partnership agreement is provided to the brokerage. Sell orders may be accepted but not buy orders or distributions.

QUESTION NO: 134

In a triple net lease, which of the following is the tenant not responsible for paying?

- A. taxes
- B. financing charges
- C. insurance premiums
- D. maintenance

Answer: B

Explanation:

financing charges. In a triple net lease, the tenant is responsible for taxes, insurance, and maintenance.

QUESTION NO: 135

The most common type of bond issued by a well-established company is:

- A. a debenture
- B. a senior secured note
- C. a convertible

D. an open-end mortgage

Answer: A

Explanation:

a debenture. Because of the company's well-established financial condition, it issues a debenture that has no specific collateral and is only backed by the creditworthiness of the issuer.

QUESTION NO: 136

Municipal syndicate allocation procedures are described in which of the following?

- A. underwriting agreement
- B. syndicate account letter
- C. agreement among the underwriters
- D. official statement

Answer: B

Explanation:

syndicate account letter. This letter is sent by the manager of a competitive bid syndicate to the other members. The priority and other procedures, including allocation amounts, are specified in the letter. Members signify acceptance by signing the letter and returning it to the manager.

QUESTION NO: 137

Who is responsible for verifying that limited partners meet net worth and income requirements?

- A. the limited partners
- B. the general partner
- C. the sponsor
- D. the registered representative

Answer: D

Explanation:

the registered representative. Assuring that limited partners meet net worth and income requirements is the responsibility of the registered representative.

QUESTION NO: 138

In a corporation's financial statements, earned surplus is also recognized as:

- A. gross profit
- B. operating income after payment of interest expense
- C. earnings retained after payment of dividends to shareholders
- D. net income

Answer: C

Explanation:

earnings retained after payment of dividends to shareholders. The other choices are clearly incorrect. Earned surplus is also referred to as retained earnings.

QUESTION NO: 139

The Bubba Fund is a load mutual fund that offers a reinvestment plan.

What does this mean?

- A.** purchasers of fund shares must agree to make regular investments over a period of years
- B.** income, dividend, and capital gain distributions may be automatically used to purchase new shares of the fund
- C.** holders of fund shares are permitted to regularly purchase additional shares at the bid price
- D.** no federal income taxes are paid on dividends and capital gain distributions from the fund

Answer: B

Explanation:

income, dividend, and capital gain distributions may be automatically used to purchase new shares of the fund. The new purchases are at the ask price, not the bid price.

QUESTION NO: 140

What Federal Reserve Board regulation governs the extension of securities-related credit by banks?

- A.** Regulation G
- B.** Regulation T
- C.** Regulation U
- D.** Regulation X

Answer: C

Explanation:

Regulation

U. Regulation T is the extension of credit by broker/dealers. Reg U relates to the extension of credit by banks on securities.

QUESTION NO: 141

Bubba buys 100 shares of XYZ stock at \$40 per share and sells a listed July XYZ call at 45 for a \$2 premium.

What is his loss potential?

- A.** \$3,800
- B.** \$4,000
- C.** \$4,200
- D.** \$4,500

Answer: A

Explanation:

\$3,800. If the stock declined to \$0, Bubba would lose \$4,000 from having purchased the stock less the \$200 premium he received from selling the call option.

QUESTION NO: 142

The amount for which the securities of a close-end investment company are selling above net asset value is known as:

- A.** premium
- B.** discount

- C. commission
- D. sales charge

Answer: A

Explanation:

premium. The price of closed-end investment companies is determined by trading of their shares in the open market. The price may be a discount to net asset value or a "premium" above net asset value.

QUESTION NO: 143

Which of the following is a right for shareholders of common stock?

- A. the right to have the stock price increase
- B. the right to vote about important matters of the company
- C. the right to dividends
- D. both B and C

Answer: B

Explanation:

the right to vote about important matters of the company. Shareholders have no expectation of stock price increase or dividends. They are entitled to receive dividends only if the board of directors declares them.

QUESTION NO: 144

Bubba wants to buy a \$4 convertible preferred with that has a \$50 par value and is exchangeable for common stock at \$47.50. If the preferred stock is trading at 52, what does Bubba calculate as the common stock price in order to be at parity with the preferred?

- A. 47.50
- B. 52.00
- C. a little less than 49.38
- D. a little more than 54.50

Answer: C

Explanation:

a little less than 49.38. Bubba needs a calculator to divide the par value of the preferred stock by the price of the common stock. He then divides the result into the price at which the preferred stock is trading. $50 \text{ divided by } 47.50 = 1.05352$ divided by $1.053 = 49.38$.

QUESTION NO: 145

An "accumulation unit" of a variable annuity is used to determine which of the following?

- A. the value of the annuitant's contract before annuity payments begin
- B. the amount of annuity payments to be paid to the owner
- C. the amount to be passed to the annuitant's beneficiary
- D. the amount returned to the annuitant upon redemption of the account

Answer: A

Explanation:

the value of the annuitant's contract before annuity payments begin. Accumulation units determine contract value. Payout are determined by annuity units.

QUESTION NO: 146

Mutual fund salespersons may not represent that a product is like of safer than:

- A. an insurance policy
- B. a fixed annuity
- C. a corporate debt instrument
- D. all of the above

Answer: D

Explanation:

all of the above. A broker/dealer must demonstrate that what is said or printed about a product is not fraudulent. Representing a mutual fund as safer than any of the choices above is likely fraudulent.

QUESTION NO: 147

The public offering price of the securities of an open-end management investment company is:

- A. determined by a method set forth in the prospectus of the issuer
- B. based upon net asset value of the securities underlying the shares of the issuer plus a 10 % sales charge
- C. determined by the relative demand for the shares of the issuer
- D. the price used by distributors in determining sales incentive discounts to individual purchasers

Answer: A

Explanation:

determined by a method set forth in the prospectus of the issuer. The method is described in the prospectus. It uses the net asset value plus any sales charge

QUESTION NO: 148

Under which of the following conditions are homeowners most likely to refinance existing mortgages?

- A. when interest rates rise
- B. when interest rates fall
- C. when interest rates are stable
- D. when the yield curve is inverted

Answer: B

Explanation:

when interest rates fall. Homeowners are most likely to refinance when rates are lower than the past.

QUESTION NO: 149

Bubba Corporation has a registered public offering of 750,000 shares at \$40. An underwriter of 30,000 shares is advised by the manager that its retention will be 70%.

How many shares may the underwriter sell to its own customers?

- A. 30,000

- B. 21,000
- C. 9,000
- D. as many as it can up to a maximum of 51,000

Answer: B

Explanation:

21,000. The underwriter is permitted to retain 70% of the 30,000 shares. The remaining 9,000 shares are kept in the pot by the manager.

QUESTION NO: 150

Bubba is age 54 and has investments in a retirement plan with his former employer valued at \$104,500. Bubba withdraws \$25,000 to open a retail clothing store.

Which of the following statements is true regarding Bubba's tax consequences?

- A. the entire account is terminated and \$104,500 is immediately taxable
- B. a penalty of 10% of the withdrawn amount is assessed
- C. a penalty of 10% on all assets in Bubba's account is assessed
- D. only regular income tax is due on the amount withdrawn

Answer: B

Explanation:

a penalty of 10% of the withdrawn is assessed. Bubba also owes regular income tax on the withdrawn amount in addition to the 10% penalty for early withdrawal.

QUESTION NO: 151

Although a corporation has no earnings in a particular year, it is obligated to pay interest on all its outstanding debt except the following:

- A. convertible subordinated debentures
- B. collateral trust bonds
- C. adjustment bonds
- D. equipment trust certificates

Answer: C

Explanation:

adjustment bonds. These bonds are also known as income bonds. Interest is paid only if there is income.

QUESTION NO: 152

In regard to discretionary accounts, which of the following statements is correct?

- A. the customer must approve each transaction in writing before the order is entered
- B. the customer must grant written authorization to the member firm to exercise discretion in the account
- C. the account must be accepted in writing by an officer of the member firm
- D. both B and C

Answer: D

Explanation:

both B and C. Choice A is the opposite of a discretionary account. Both B and C are standard procedures for a discretionary account.

QUESTION NO: 153

Which of the following would not be subject to the holding period restrictions under Rule 144?

- A. restricted stock acquired via investment letter
- B. restricted stock acquired via stock options plan
- C. restricted stock acquired via private placement
- D. restricted stock acquired via open market purchase

Answer: D

Explanation:

restricted stock acquired via open market purchase. The two-year holding period does not apply when the security is acquired in the open market. However, if the security is owned by a control person, the other provisions of Rule 144 do apply.

QUESTION NO: 154

Assuming that the information contained in a registration statement is complete and accurate, the registration statement becomes effective:

- A. 10 days after receipt by the SEC
- B. 20 days after receipt by the SEC
- C. 30 days after receipt by the SEC
- D. only after the SEC specifically clears the issue in writing to the principal underwriter

Answer: D

Explanation:

only after the SEC specifically clears the issue in writing to the principal underwriter. The registration statement becomes effective when notice is received in writing from the SEC.

QUESTION NO: 155

Bubba decides to buy equity securities. Which of the following statements is always true about what Bubba is buying?

- A. they are readily marketable
- B. they have a fixed rate of return
- C. they have a fixed maturity date
- D. they are not secured by collateral

Answer: D

Explanation:

they are not secured by collateral. Equity is ownership, which has no collateral security...or any other kind of security such as a guaranteed return, maturity, or marketability.

QUESTION NO: 156

Which of the following is not found in the final prospectus?

- A. a statement as to possible stabilization by the manager
- B. the public offering price
- C. a copy of the underwriting agreement
- D. a statement that the SEC neither approves nor disapproves of the issue

Answer: C

Explanation:

a copy of the underwriting agreement. The underwriting agreement is "not" in the final prospectus. This is a contract between the issuer and the underwriting syndicate.

QUESTION NO: 157

A public offering by an investment banker in which any securities not sold are returned to the issuer is known as:

- A. a firm commitment
- B. a best efforts offering
- C. an all or none offering
- D. a contingency offering

Answer: B

Explanation:

a best efforts offering. With a best efforts offering the investment banker does not make any guarantee that all the offered securities will sell. The investment banker pays for only those securities that are actually sold and returns unsold shares to the issuer.

QUESTION NO: 158

Which of the following is not good delivery on a sale of 470 shares?

- A. 47 10-share certificates
- B. 4 100-share certificates and one 70-share certificate
- C. 8 50-share certificates, one 40-share certificate, and one 30-share certificate
- D. 2 100-share certificates and 3 90-share certificates

Answer: D

Explanation:

2 100-share certificates and 3 90-share certificates. Three 90-share certificates are not good delivery because they cannot be combined into 100-share amounts.

QUESTION NO: 159

Creditors whose claims are not settled upon dissolution of a limited partnership may seek recourse from:

- A. the general partner's profits
- B. the general partner's personal assets
- C. the partnership's income
- D. the personal assets of the limited partners

Answer: B

Explanation:

the general partner's personal assets. When a partnership no longer has assets, but does have debts, creditors may look to the personal property of the general partner.

QUESTION NO: 160

What is the maximum amount of gift to customers or other individuals related to the securities business that a registered representative is permitted to give?

- A. \$500

- B. \$200
- C. \$100
- D. \$50

Answer: C

Explanation:

\$100. This is the maximum per FINRA rules.

QUESTION NO: 161

An employer profit sharing plan may be described as:

- A. an income tax deduction
- B. a retirement plan
- C. a tax deferral plan
- D. all of the above

Answer: D

Explanation:

all of the above. A profit sharing plan has tax deductible contributions and is designed to provide a retirement plan for participants. Income in the plan is tax-free until withdrawn.

QUESTION NO: 162

Municipal bonds would be least attractive as an investment for which of the following?

- A. an insurance company
- B. a pension fund
- C. a commercial bank
- D. the executive officer of an industrial corporation in the highest income tax bracket

Answer: B

Explanation:

a pension fund. Since the pension fund does not pay income tax, the tax benefits of the municipal bonds are not realized.

QUESTION NO: 163

Bubba Securities, Inc. offers 3,000,000 shares of Top Notch Manufacturing Corporation common stock at \$27 per share. The next day an advertisement appears in the Wall Street Journal announcing the offering and listing the names of some of the underwriting firms.

This ad is commonly referred to as a:

- A. public offering
- B. tombstone ad
- C. sales directive
- D. syndicate announcement

Answer: B

Explanation:

tombstone ad. Tombstone ads are used to announce new issues. They do not offer to buy or sell securities. They are informational only.

QUESTION NO: 164

Which of the following is not provided for by Blue Sky laws?

- A. registration of representatives
- B. registration of securities offered in the state
- C. interstate mail fraud in securities offerings
- D. registration of securities dealers

Answer: C

Explanation:

interstate mail fraud in securities offerings. Blue Sky laws are state security laws and do not cover interstate regulations.

QUESTION NO: 165

If a customer fails to pay for securities purchased in a cash account, the member firm broker will do which of the following?

- A. grant an extension for a bona fide reason
- B. place the securities temporarily in a general account
- C. purchase the securities for the firm's error account
- D. liquidate the securities or otherwise cancel the transaction

Answer: D

Explanation:

liquidate the securities or otherwise cancel the transaction. Reg T requires the position closed if the customer fails to comply with the rules. An extension may be granted, but not by the member firm. Only an exchange or the FINRA grants extensions for bona fide reasons.

QUESTION NO: 166

In a securities underwriting a participating firm is said to be liable severally but not jointly. What is this type of underwriting is called?

- A. a Western account
- B. an Eastern account
- C. a best efforts offering
- D. an all or none offering

Answer: A

Explanation:

a Western account. In a Western account each underwriter has a divided liability and is responsible only for his portion of the issue. In Eastern accounts, generally used for municipal issues, the underwriter is responsible for a percentage of any unsold portion. This is called an undivided liability.

QUESTION NO: 167

Common stocks for which of the following industries are most likely to decline in value when interest rates rise?

- A. automobile manufacturers
- B. airlines
- C. stock brokers
- D. public utility companies

Answer: D

Explanation:

public utility companies. Interest rates most affect the companies with the greatest amount of debt. Public utility companies are highly leveraged. Hence, they most likely incur the largest effect of rising interest rates.

QUESTION NO: 168

Bubba buys a municipal bond at a discount and holds it to maturity.

Which of the following is true?

- A. interest is taxable as ordinary income
- B. the capital gain is tax exempt
- C. interest is tax exempt, but the capital gain is taxable
- D. the capital gain is tax exempt, but the interest is taxable as ordinary income

Answer: C

Explanation:

interest is tax exempt, but the capital gain is taxable. This happens because Bubba purchased the bond in the secondary market with a different price than the original issue face amount.

QUESTION NO: 169

Which of the following is an acceptable deposit to answer an NYSE maintenance call?

- A. US savings bond
- B. SMA
- C. US treasury notes
- D. all of the above

Answer: C

Explanation:

US treasury notes. A maintenance call requires cash or negotiable securities. Only the treasury notes meet this standard.

QUESTION NO: 170

The term "mutual fund" is popularly used for which of the following?

- A. all investment companies
- B. pension funds
- C. open-end investment companies
- D. closed-end investment companies

Answer: C

Explanation:

open-end investment companies. The term is generally applied to open-end investment companies.

QUESTION NO: 171

If the Federal Reserve wished to ease credit, which of the following steps would it take?

- A. raise the discount rate

- B. purchase securities in the open market
- C. lower reserve requirements
- D. both B and C

Answer: D

Explanation:

both B and C. Buying in the open market injects funds into the economy. Lowering reserve requirements provides banks with more funds for lending.

QUESTION NO: 172

Bubba buys "double-barreled" municipal bonds. What is the source of guaranteed repayment on these bonds?

- A. a specific municipal project plus a federal subsidy
- B. two specific municipal projects
- C. all projects of the issuing municipality
- D. one specific municipal project plus the full financial strength of the issuer

Answer: D

Explanation:

one specific municipal project plus the full financial strength of the issuer. Double -barreled bonds are first payable from a specific project, but are further guaranteed by the issuing municipality.

QUESTION NO: 173

Which of the following may occasionally be purchased at a discount from net assets value?

- A. no-load funds
- B. closed-end funds
- C. open-end funds
- D. contractual plans

Answer: B

Explanation:

closed-end funds. Mutual funds are purchased at NAV (when no-load) or NAV plus a sales charge. The pricing of closed-end funds is determined by market activity and has no direct link to NAV.

QUESTION NO: 174

Which of the following has the least active secondary market?

- A. treasury bills
- B. banker's acceptances
- C. certificates of deposit
- D. commercial paper

Answer: D

Explanation:

commercial paper. The sizes of secondary markets for these securities are listed in order with treasuries first, then banker's acceptances, followed by certificates of deposit. There is only a very small secondary market for commercial paper.

QUESTION NO: 175

A corporation makes a rights offering to raise \$10 million of new capital by issuing one million shares of common stock. If it already has six million shares outstanding at the time of the offering.

What is the subscription price per share?

- A. \$4
- B. \$6
- C. \$7
- D. \$10

Answer: D

Explanation:

\$10. There are one million shares divided into the \$10 million of new capital.

QUESTION NO: 176

Bubba held one XYZ July 30 listed call option when XYZ split 2 for 1.

What is the resulting position, Bubba has on the Option Clearing Corporation's record?

- A. long one XYZ July 30 call
- B. long one XYZ July 30 call and short one XYZ July 30 call
- C. long two XYZ July 30 calls
- D. long two XYZ July 15 calls

Answer: D

Explanation:

long two XYZ July 15 calls. Double the number of contracts and half the strike price. This is similar to XYZ shareholders doubling the number of shares they hold at the lower price.

QUESTION NO: 177

The cost of maintaining an investment in a mutual fund is best reflected in the:

- A. custodial fee
- B. sales charge
- C. expense ratio
- D. net investment income

Answer: C

Explanation:

expense ratio. Custodial fees are negligible and the sales charge is a one-time expense. The "best" reflection of mutual fund costs is the expense ratio.

QUESTION NO: 178

To qualify as an intrastate offering under SEC Rule 147, which of the following is true of the issue?

- A. it must be approved by the SEC
- B. it must be sold only to bona fide residents of one state
- C. it cannot exceed \$1,500,000 in value
- D. it must consist of common stock only

Answer: B

Explanation:

it must be sold only to bona fide residents of one state. Under Rule 147 intrastate offerings are sold only to residents of one state and cannot be sold outside that state for nine months. All the other choices are incorrect about the rule.

QUESTION NO: 179

A financial institution requesting a quote on a block of 100 bonds from a dealer in government securities receives a quote of 98.02 bid, 98.06 asked.

What is the dollar amount the institution will receive if the financial institution sells these bonds to the dealer?"

- A. \$98,062.50
- B. \$98,187.50
- C. \$98,250.00
- D. \$98,750.00

Answer: A

Explanation:

\$98,062.50. The financial institution receives the bid price, which is 98 and 2 / 32. Two thirty-seconds is \$0.625. The 98 is the percentage of a \$1,000 bond. Multiplying 98% by \$1,000 results in \$980. Add \$0.625 to \$980 to arrive at \$980.625 per bond. But ...there are 100 bonds. So, multiplying \$980.625 by 100 equals \$98,062.50.

QUESTION NO: 180

Bubba and his wife, Bubbette, maintain a joint account with a brokerage firm as "joint tenants in common". Bubbette calls a registered representative at the brokerage and places an order to sell 100 shares of XYZ, which is long in the account.

Which of the following statements is correct about this order?

- A. it may be entered
- B. it may be entered only after confirming with Bubba
- C. it must be approved by an officer of the brokerage prior to entry
- D. the order may not be accepted

Answer: A

Explanation:

it may be entered. In a joint account any tenant is empowered to enter orders, which is specified in the account agreement.

QUESTION NO: 181

The maximum contribution an employer may make to a SEP-IRA is:

- A. \$4,000
- B. \$5,000
- C. 25% of employee compensation
- D. 100% of employee compensation

Answer: C

Explanation:

25% of employee compensation. There is also a dollar cap that is has an annual cost-of-living adjustment.

QUESTION NO: 182

Bubba is buying a Federal Home Loan Bank issue that is offered at 95.22.

How much will he pay to purchase one bond?

- A. \$95.22
- B. \$951.63
- C. \$952.20
- D. \$956.88

Answer: D

Explanation:

\$956.88. The price of 95.22 means 95 and 22 / 32. One thirty-second of a \$1,000 bond with a par of 100.00 is \$0.3125. Twenty-two thirty-seconds is therefore about \$6.88. The 95 is the percentage of one bond with a par value of \$1,000. Multiplying 95% by \$1,000 equals \$950. Adding \$6.88 plus \$950 equals \$956.88.

QUESTION NO: 183

Which of the following registered investment companies normally sells with an appropriate commission added to the contract price?

- A. an open-end investment company
- B. a unit investment trust
- C. a face-amount certificate company
- D. a closed-end investment company

Answer: D

Explanation:

a closed-end investment company. An open-end investment company may have a sales charge but not a commission.

QUESTION NO: 184

Which of the following types of investment companies pays out 90% of its net investment income to shareholders?

- A. diversified
- B. registered
- C. regulated
- D. balanced

Answer: C

Explanation:

regulated. Investment companies regulated by the Internal Revenue Code Subchapter M are required to pay out a minimum of 90% of their net income annually to their shareholders.

QUESTION NO: 185

Crossover is best defined as:

- A. the point at which the program becomes profitable

- B. the point at which income exceeds deductions
- C. the fact that there are more general partners than limited partners
- D. the profit of limited partners exceeding profit of general partners

Answer: B

Explanation:

the point at which income exceeds deductions. This is the definition of "crossover".

QUESTION NO: 186

All sales literature and advertising relating to investment company shares prepared by members of FINRA must be filed for review with which of the following?

- A. Anti-Trust Division of the Justice Department
- B. SEC
- C. Federal Reserve Board
- D. FINRA

Answer: D

Explanation:

FINRA. Sales literature regarding investment company shares must be filed with FINRA within three days after the first use.

QUESTION NO: 187

A buy-in of a customer's sale transaction is mandated if the securities have not been received by the broker/dealer within how many business days following the settlement date:

- A. 5
- B. 10
- C. 20
- D. 30

Answer: B

Explanation:

10. If a customer fails to deliver securities within ten days after settlement, the broker must repurchase the securities.

QUESTION NO: 188

Which of the following sets out the details for the management board of condominiums, including the board's powers and limitations?

- A. master deed
- B. bylaws
- C. rental agreement
- D. loan agreement

Answer: B

Explanation:

bylaws. The bylaws of a condominium association provide general details about management.

QUESTION NO: 189

A registered bond with "Happy Birthday" scrawled across the face of the certificate is delivered to a broker/dealer in satisfaction of sale by another member firm. Assuming it is accompanied by an authentic assignment, power of substitution form, and tax stamps (if appropriate), this is good delivery only if:

- A. the certificate is validated by the transfer agent
- B. the certificate is validated by the registered owner
- C. the marking did not cover the name of the registered owner or the principal amount of the bond
- D. this is not a good delivery under any circumstances

Answer: A

Explanation:

the certificate is validated by the transfer agent. A mutilated bond must be validated before it can be a good delivery. The validation can be made by the issuer or the transfer agent.

QUESTION NO: 190

What is the loan value on a call option held in a customer's margin account?

- A. 0
- B. 50%
- C. 30%
- D. the compliment of the FRB initial margin requirement for listed stocks

Answer: A

Explanation:

0. Options do not have loan value, except for long-term LEAPS.

QUESTION NO: 191

Which of the following is the least important method of money control exercised by the Federal Reserve?

- A. reserve requirements
- B. open market operations
- C. discount rate
- D. Regulation T

Answer: D

Explanation:

Regulation T. Because this regulates brokers extending credit to customers, it is important to the securities industry but does not have an extensive effect on the general economy.

QUESTION NO: 192

An investment company acting as a conduit in the distribution of net investment income, pursuant to IRS rules, is called:

- A. balanced
- B. diversified
- C. regulated
- D. dual-purpose

Answer: C

Explanation:

regulated. The term "regulated" refers to tax status under Subchapter M of the Internal Revenue Code. This simply means that if a mutual fund or other investment company qualifies for regulated status, the threat of taxation at multiple levels is eliminated.

QUESTION NO: 193

Bubba buys one XYZ September 50 call at \$7 and sells one XYZ September 60 call at \$3. At that time, XYZ stock is at \$55. Bubba has no other stock positions. At what must XYZ trade for Bubba to break even?

- A. \$54
- B. \$55
- C. \$57
- D. \$60

Answer: A

Explanation:

\$54. Bubba's position is a bullish spread. The breakeven is determined by adding the debit amount to the lower strike price. The debit amount is \$4 (\$7 - \$3). Adding that to \$50 equals \$54.

QUESTION NO: 194

A registered representative just accepted Bubba's instructions to buy a specific stock in the over-the-counter market with the credit balance in his account.

Which of these orders for that issue can be entered and executed on a single ticket in a typical broker/dealer organization?

- A. buy 150 XYZ at market
- B. buy 150 XYZ at 17.50 or better
- C. buy \$2,500 worth of a mutual fund XYZ Corporation
- D. all of these

Answer: D

Explanation:

all of these. In the OTC market, all of these orders are possible. A mutual fund is considered OTC.

QUESTION NO: 195

A treasury obligation having no fixed rate of interest with a thirty-day maturity due April 22 is most likely a:

- A. treasury note
- B. tax anticipation bill
- C. Series H bond
- D. Series EE bond

Answer: B

Explanation:

tax anticipation bill. These obligations pay no interest and their maturity comes after corporate tax payment dates. They are accepted for redemption at face value prior to

maturity on corporate tax payment dates to encourage purchase by corporations.

QUESTION NO: 196

Which of the following would not normally be a function of an investment banker?

- A. providing short-term capital needs to client companies
- B. underwriting new issues of securities
- C. providing long-term capital needs to client companies
- D. assisting in large secondary offerings of securities

Answer: A

Explanation:

providing short-term capital needs to client companies. The short-term capital needs of companies are normally the function of commercial bankers, not investment bankers.

QUESTION NO: 197

In terms of depletion, percentage depletion is better than cost depletion because it:

- A. permits recovery of more than the original cost
- B. is limited to production
- C. is more widely available
- D. is not subject to recapture

Answer: A

Explanation:

permits recovery of more than the original cost. Percentage depletion is only available for small producing wells.

QUESTION NO: 198

Bubba owns a perpetual warrant to buy one share of Internet Corporation common stock at \$30. Internet Corporation stock is trading at 41.50 and is ex-dividend today at \$0.75.

What is the market value of Bubba's warrant?

- A. 5.75
- B. 5.62
- C. 5.38
- D. cannot be determined from this information

Answer: D

Explanation:

cannot be determined. Bubba can put away the calculator. The warrant is "perpetual" so the value is not determinable from today's price of the common stock.

QUESTION NO: 199

Which of the following is true about a customer with a frozen account?

- A. may not trade corporate securities under any circumstances
- B. may make purchases but not sales of corporate securities
- C. must deposit the full purchase cost before an order is executed
- D. must deposit sufficient cash for each transaction no later than the settlement date

Answer: C

Explanation:

must deposit the full purchase cost before an order is executed. A "frozen" account is restricted to full cash payment in advance for any purchase.

QUESTION NO: 200

Bubba wants to buy 500 shares of an NYSE listed stock at 38.87 but he wants to buy at one time, right away, or else forget it.

What kind of order should the registered representative enter?

- A. fill or kill
- B. all or none
- C. immediate or cancel
- D. now or never

Answer: A

Explanation:

fill or kill. This type of order is cancelled if the entire amount cannot be executed.

QUESTION NO: 201

An option that permits the holder to exercise the contract only at expiration is referred to as:

- A. European style
- B. American style
- C. Nordic style
- D. Asian style

Answer: A

Explanation:

European style. These options can only be exercised at the expiration date while American style options can be exercised at any time prior to expiration.

QUESTION NO: 202

Which of the following does not issue debt securities that trade in the open market?

- A. Fannie Mae
- B. Freddie Mac
- C. Federal Reserve Banks
- D. Federal Land Banks

Answer: C

Explanation:

Federal Reserve Banks. Debt securities are not issued by Federal Reserve Banks. All of the other entities do issue debt securities.

QUESTION NO: 203

Which of the following are sources of funding for limited partnerships?

- A. proceeds of the offering
- B. periodic assessments on the partners
- C. installment payments
- D. all of the above

Answer: D

Explanation:

all of the above. All are sources of funds for limited partnerships along with non-recourse loans.

QUESTION NO: 204

Which of the following is not true about mutual funds and variable annuities?

- A. each is regulated under the Investment Company Act of 1940
- B. the holder of each must pay income taxes on the dividends received each year
- C. the registered representative must have FINRA registration to solicit either one
- D. the payout of each depends on the investment results of the securities owned in the portfolio

Answer: B

Explanation:

the holder of each must pay income taxes on the dividends received each year. Only the holder of mutual fund shares must pay income tax on annual dividends. This is "not" true of annuity owners. The other choices are true statements.

QUESTION NO: 205

Bubba buys an OTC stock from a firm that is a market-maker in the stock.

What may be said about the price he pays?

- A. it does not include a markup
- B. it includes a markup
- C. it includes a commission and a markup
- D. it includes a special fee

Answer: B

Explanation:

it includes a markup. A market-maker acts as principal. Therefore, Bubba pays a markup but not a commission.

QUESTION NO: 206

Convertible bonds have all of the following features except:

- A. an ability to protect a short position on the stock into which they are convertible
- B. permissibility for use as collateral
- C. a normally higher yield than non-convertible bonds of the same issuer
- D. fluctuations influenced by changes in the price of the underlying common stock

Answer: C

Explanation:

a normally higher yield than non-convertible bonds of the same issuer. Remember that the question says "except" for this feature. Convertible bonds normally do NOT have a higher yield than non-convertible bonds of the same issuer. Convertibles usually have a lower yield than non-convertible sisters.

QUESTION NO: 207

With the Regulation T requirement at 50%, a firm wishes to impose house rules that require a minimum equity of 40%.

Which of the following is true?

- A. this cannot be implemented because the level is below Reg T
- B. this cannot be implemented since maintenance requirements are only 25% of equity for long positions
- C. this is permissible
- D. this action must be approved by the FRB and FINRA

Answer: C

Explanation:

this is permissible. Firms may establish house rules as long as they are at least as strict as the minimum maintenance requirements. Reg T only dictates an initial requirement and does not address minimum equity.

QUESTION NO: 208

Bubba's pledge to purchase a specified dollar amount of a mutual fund within a specified period of time is called:

- A. a promissory note
- B. a letter of intent
- C. an investment letter
- D. a stock power

Answer: B

Explanation:

a letter of intent. This accurately describes the definition of a letter of intent.

QUESTION NO: 209

Reinvestment of dividends and distributions from investment company shares:

- A. results in compounding of shares, which can be an important factor for investment growth
- B. permits deferment of all federal income taxes on dividends and distributions until the investment is liquidated
- C. makes possible the purchase of fund shares at a price below net asset value
- D. all of the above

Answer: A

Explanation:

results in compounding of shares, which can be an important factor for investment growth.

Reinvesting dividends and capital gains increases the number of shares owned.

Occasionally, these programs permit purchases at net asset value, but never below that price. Shareholders do not avoid current tax liability on the amount of dividends and capital gains reinvested.

QUESTION NO: 210

The minimum denomination for a US treasury bond is:

- A. \$100
- B. \$1,000

- C. \$10,000
- D. \$100,000

Answer: B

Explanation:

\$1,000. This is the minimum denomination. Normally, US treasury bonds are in much larger denominations.

QUESTION NO: 211

What is the importance of the "at risk" rule?

- A. it limits deductions to the amount at risk
- B. it limits liability to the amount at risk
- C. deductions for interest may not exceed investment income
- D. it prevents carry forward of disallowed interest deductions

Answer: A

Explanation:

it limits deductions to the amount at risk. Deductions may not exceed contributed capital.

QUESTION NO: 212

In a 401(k) plan, when are employee's contributions of compensation deferral vested?

- A. after 2 years
- B. immediately
- C. after 5 years
- D. the same as the employer's contributions

Answer: B

Explanation:

immediately. The employer's contributions may be subject to a vesting schedule, but the employee's contributions are immediately vested.

QUESTION NO: 213

Under Regulation T, when must money be deposited to cover requirements for Bubba's new purchases on margin?

- A. no later than the fifth business day after the trades
- B. no later than the seventh business day after the trades
- C. on the day of the trades
- D. on the next business day following the trades

Answer: A

Explanation:

no later than the fifth business day after the trades. Bubba should pay up no later than the fifth business day.

QUESTION NO: 214

A corporate bond is quoted as having a net change in value of plus one point.

By how much did the bond price increase?

- A. \$1,000

- B. \$100
- C. \$10
- D. \$1

Answer: C

Explanation:

\$10. A point is 1% and bonds are priced in \$1,000 increments. Multiplying \$1,000 by 1% equals \$10.

QUESTION NO: 215

Bubba's margin account has \$2,000 of SMA,. If he buys \$10,000 of new securities, how much additional cash must he deposit assuming a Reg T requirement of 50%?

- A. \$3,000
- B. \$4,800
- C. \$5,000
- D. \$6,000

Answer: A

Explanation:

\$3,000. The purchase requires \$5,000 (\$10,000 x 50%). Since the existing SMA is \$2,000 Bubba only needs to deposit the remaining \$3,000.

QUESTION NO: 216

The agreement between the members of a syndicate and the manager is known as the:

- A. agreement among underwriters
- B. underwriting agreement
- C. standby agreement
- D. selling agreement

Answer: A

Explanation:

agreement among underwriters. This agreement authorizes the manager to handle the offering. The final contract between the manager and the issuer is the "underwriting agreement".

QUESTION NO: 217

Which of the following municipal securities carries the full faith and credit of the US government for payment of interest and principal if the issuer's funds are insufficient?

- A. general obligation bonds issued municipalities
- B. special tax bonds issued by municipalities
- C. revenue bonds issued by municipal port authorities
- D. new housing authority bonds issued by a public housing authority

Answer: D

Explanation:

new housing authority bonds issued by a public housing authority. Only housing bonds are backed by the US government if municipalities are unable to meet the obligations for payment.

QUESTION NO: 218

Which of the following must be true in order for an offering to qualify as an intrastate offering under Rule 147?

- A. 80% of the proceeds of the offering must be used in that state
- B. 80% of the corporation's assets must be located in that state
- C. 80% of the corporation's revenue must be earned in that state
- D. all of the above are required

Answer: D

Explanation:

all of the above are required. An intrastate offering under Rule 147 requires qualification under all of these conditions.

QUESTION NO: 219

Bubba has a short margin account with a short market value of \$22,000, a credit balance of \$42,000, and SMA of \$500.

What is the equity in Bubba's account?

- A. \$500
- B. \$20,000
- C. \$20,500
- D. \$37,000

Answer: B

Explanation:

\$20,000. The equity in a short margin account is equal to the credit balance minus the short market value. SMA is not considered when computing equity.

QUESTION NO: 220

A trust instrument drawn pursuant to the Trust Indenture Act of 1939 sets forth which of the following?

- A. the rights of stockholders
- B. the duties of the trustee
- C. the obligations of the issuing corporation
- D. both B and C

Answer: D

Explanation:

both B and C. A trust indenture does both of these but does not define the rights of stockholders.

QUESTION NO: 221

Which of the information below does not appear in the official notice of sale?

- A. the type of bond
- B. the amount of required good faith check
- C. the names of underwriting syndicate members
- D. the method and place of settlement

Answer: C

Explanation:

the names of the underwriting syndicate members. At the time the notice of sale is published, the syndicate has generally not been formed. All the other information is required.

QUESTION NO: 222

A group net order is one that benefits municipal syndicate members:

- A. equally
- B. according to their percentage participation in the account
- C. according to the number of designated orders they've received
- D. according to the number of presale orders they've received

Answer: B

Explanation:

according to their percentage participation in the account. For example, if the group net order produces \$3,000 in fees and a syndicate member has a 10% overall participation, that member receives \$300 in fees.

QUESTION NO: 223

Maintaining a fair and orderly market and acting as a broker's broker are dual functions of the:

- A. competitive trader
- B. odd-lot dealer
- C. specialist
- D. two-dollar broker

Answer: C

Explanation:

specialists. This description defines the function of the specialists.

QUESTION NO: 224

Which of the following is considered an intangible asset?

- A. marketable securities
- B. trademarks
- C. accounts receivable
- D. furniture

Answer: B

Explanation:

trademarks. Intangible assets are those whose true value cannot be determined, but there is some supposed market value.

QUESTION NO: 225

Bubba Corporation issued bonds that pay interest on January 15 and July 15 each year until maturity. An investor purchasing these bonds on Monday, April 12, must pay the contract price plus accrued interest for:

- A. 87 days

- B. 89 days
- C. 93 days
- D. 90 days

Answer: D

Explanation:

90 days. Interest accrues from the coupon date to the settlement date. A regular way purchase on April 12 will settle on April 15. Corporate bonds are figured on 30-day months, regardless of the actual number of days in the month. The year is considered 360 days. Therefore, interest is calculated for 16 days in January plus 30 each for February and March plus 14 for April.

QUESTION NO: 226

Bubba has a short margin account with a short market value of \$22,000, a credit balance of \$42,000, and SMA of \$500.

What is the NYSE minimum equity maintenance for this account?

- A. \$5,500
- B. \$6,000
- C. \$6,600
- D. \$12,600

Answer: C

Explanation:

\$6,600. The NYSE maintenance requirement on short margin accounts is 30%. Multiplying the short market value of \$22,000 by 30% equals \$6,600.

QUESTION NO: 227

A limit order is best described as an order:

- A. to buy at a specific price or lower
- B. to sell at a specific price or higher
- C. to be executed at a specific price or better
- D. that is in effect for only one day

Answer: C

Explanation:

to be executed at a specific price or better. Choice A is only a buy limit order and choice B is only a sell limit order. Choice C is the correct definition of a "limit order".

QUESTION NO: 228

The Bubba Corporation has 900,000 of common outstanding and holds 100,000 shares as treasury stock. At the end of the third quarter \$450,000 is distributed as a dividend on the common.

How much is the dividend per share?

- A. \$0.45
- B. \$0.50
- C. \$2.00
- D. \$2.22

Answer: A

Explanation:

\$0.45. Since treasury stock does not receive dividends, divide \$450,000 by the outstanding 100,000 shares to arrive at \$0.45 per share.

QUESTION NO: 229

Which of the following is an analyst most likely to classify as a defensive issue?

- A. the securities of a company that airplanes to the military
- B. a stock of a large company
- C. the common stock of a utility company
- D. a corporate bond

Answer: C

Explanation:

the common stock of a utility company. The term "defensive issue" refers to a security that is least susceptible to swings in the business cycle.

QUESTION NO: 230

Which of the following securities has the highest amount of market risk?

- A. US treasury bills
- B. US treasury certificates
- C. US treasury notes
- D. savings bank deposits

Answer: C

Explanation:

US treasury notes. Savings bank deposits have no risk. The short duration of treasury bills and certificates embodies less market risk than longer-term treasury notes.

QUESTION NO: 231

In order to determine the amount of estate tax due, if any, the assets of a decedent's estate are valued as of the date of death. A second evaluation is then made:

- A. three months after the date of death
- B. six months after the date of death
- C. one year after the date of death
- D. at any time up to six months after the date of death

Answer: B

Explanation:

six months after the date of death. A second evaluation is made six months from the date of death. The estate may then use either value in determining estate tax.

QUESTION NO: 232

Hypothecation usually refers to which of the following?

- A. forecasting the market based upon past performance
- B. pledging securities as collateral
- C. determining a reasonable offering price for a new issue

D. none of the above

Answer: B

Explanation:

pledging securities as collateral. To hypothecate securities is to pledge them.

QUESTION NO: 233

Partnership democracy is:

- A. a prohibition against control by a single partner
- B. the sharing of management by all partners
- C. permission granted to the general partner to act outside the partnership agreement
- D. a synonym for silent partner

Answer: C

Explanation:

permission granted to the general partner to act outside the partnership agreement. The limited partners may approve of the general partner pursuing an act that is contrary to the partnership agreement.

QUESTION NO: 234

Municipalities are most likely to issue notes for which of the following purposes?

- A. short-term cash needs
- B. federal income tax payments
- C. repairs to infrastructure
- D. long-term financing

Answer: A

Explanation:

short-term cash needs. Notes are generally used for short-term needs.

QUESTION NO: 235

Bubba buys a US treasury bond. The interest he earns is:

- A. subject to federal and state income tax
- B. exempt from federal and state income tax
- C. subject to state income tax but exempt from federal income tax
- D. subject to federal income tax but exempt from state income tax

Answer: D

Explanation:

subject to federal income tax but exempt from state income tax. The interest on US government securities is taxed by the US government but not by state governments. The opposite is true of bonds issued by a state, which are exempt from federal tax but subject to state taxes -except for taxes of the state that issues them.

QUESTION NO: 236

The net investment income of an open-end investment company represents:

- A. net income from dividends and interest paid on securities in the fund's portfolio
- B. net gains on sales of portfolio securities

- C. dividends, interest, and net gains on sales of securities
- D. net profits from the investment company operation

Answer: A

Explanation:

net income from dividends and interest paid on securities in the fund's portfolio. Net investment income is dividends and interest but not capital gains.

QUESTION NO: 237

What is the term applied to a classification of CMO securities having a stated maturity, average life, and estimated yield?

- A. tranche
- B. tier
- C. bracket
- D. bucket

Answer: A

Explanation:

tranche. That's the term used to describe a separate class within a CMO issue.

QUESTION NO: 238

Which of the following pairs of terms are synonyms in connection with most mutual funds?

- A. net asset value and offering price
- B. selling price and bid price
- C. net asset value and redemption price
- D. bid price and management fee

Answer: C

Explanation:

net asset value and redemption price. Investors redeeming shares of mutual funds receive the net asset value.

QUESTION NO: 239

Regulation A permits a short form of filing for offerings of new securities provided the total amount of the offering does not exceed:

- A. \$1,000,000
- B. \$5,000,000
- C. \$2,000,000
- D. \$2,500,000

Answer: B

Explanation:

\$5,000,000. This is the maximum under Regulation A.

QUESTION NO: 240

Securities may be sold under SEC rule 144 provided that the following conditions are met:

- A. the company files regular financial data with the SEC
- B. they are sold in agency transactions only

- C. they are sold in principal transactions only
- D. both A and B

Answer: A

Explanation:

the company files regular financial data with the SEC. Rule 144 transactions may use either agency or principal methods.

QUESTION NO: 241

As a general rule, when a partnership is terminated, in what order are assets distributed?

- A. general creditors, secured lenders, limited partners, general partners
- B. secured lenders, limited partners, general creditors, general partners
- C. secured lenders, general creditors, limited partners, general partners
- D. general creditors, general partners, limited partners, secured lenders

Answer: C

Explanation:

secured lenders, general creditors, limited partners, general partners. Creditors first, in order of their security, then partners. General partners are last.

QUESTION NO: 242

A corporation makes a rights offering to raise \$10 million of new capital by issuing one million shares of common stock. If it already has six million shares outstanding at the time of the offering.

How many rights will the corporation distribute to its shareholders?

- A. one million
- B. six million
- C. ten million
- D. sixteen million

Answer: B

Explanation:

six million. One right for each outstanding share is distributed.

QUESTION NO: 243

Which of the following option positions is indicative of the same class of option?

- A. long one XYZ July 70 put and one XYZ July 70 call
- B. long one XYZ October 20 call and one XYZ January 30 call
- C. short one XYZ February 60 put and one ABC February 60 put
- D. short one XYZ June 40 call and one ABC June 20 call

Answer: B

Explanation:

long one XYZ October 20 call and one XYZ January 30 call. Options in the same class are either both puts or both calls on the same security.

QUESTION NO: 244

What expression is used to describe the application of income and revenues derived from the

operation of a facility financed from proceeds of a revenue bond?

- A. debt service
- B. flow of funds
- C. revenue funding
- D. disbursement of priorities

Answer: B

Explanation:

flow of funds. This is the definition of the term flow of funds.

QUESTION NO: 245

Under an initial federal requirement of 70% equity, Bubba purchases 100 shares of XYZ at \$40 per share and wishes to satisfy the margin call by delivering another listed security into his account.

He may do so by depositing stocks with a market value of:

- A. \$9,333
- B. \$5,714
- C. 4,000
- D. \$2,800

Answer: A

Explanation:

\$9,333. If Bubba were depositing cash, he would need \$2,800 ($70\% \times \$4,000$). Since he is depositing stock, he would have to deposit enough with loan value of \$2,800. To arrive at this, divide \$2,800 by the 30% loan value to obtain \$9,333.

QUESTION NO: 246

Which of the following items is not deducted to determine a corporation's net income?

- A. taxes
- B. dividends
- C. interest
- D. all of the above

Answer: B

Explanation:

dividends. Net income is determined before dividends.

QUESTION NO: 247

Bubba buys a bond issued at par with a 5% coupon that is convertible into common stock at \$40.

What conversion ratio does Bubba determine?

- A. 40
- B. 30
- C. 25
- D. 15

Answer: C

Explanation:

25. The conversion ratio is how many shares of common stock Bubba obtains by converting. Divide the bond price - \$1,000 for a single bond - by the \$40 conversion price.

QUESTION NO: 248

When does a call option provide the most value to its holder?

- A. when the underlying stock is extremely volatile
- B. in the month prior to its expiration
- C. when there is a large open interest in that class of option
- D. when the underlying stock price is rising

Answer: D

Explanation:

when the underlying stock price is rising. That's why the holder of this option wants to have a right to "call" the stock.

QUESTION NO: 249

When the Federal Reserve lowers reserve requirements, what is it attempting to do?

- A. ease credit
- B. raise interest rates
- C. counter inflation
- D. increase the rediscount rate

Answer: A

Explanation:

ease credit. A lower reserve requirement permits member banks to have more money available for lending, thus ease credit.

QUESTION NO: 250

The term "secondary market" refers to:

- A. trading in issues of low quality
- B. trading in outstanding issues
- C. issues that banks are not permitted to underwrite
- D. private placements

Answer: B

Explanation:

trading in outstanding issues. Secondary market transactions involve trading in securities after the original issue is made. When an issuer offers new securities to the public it is a "primary offering".

QUESTION NO: 251

Call loans made by banks to broker/dealers are generally for the purpose of which of the following?

- A. expansion of office facilities
- B. meeting operating expenses
- C. carrying margin accounts
- D. financing securities held in inventory

Answer: C

Explanation:

carrying margin accounts. A call loan is made to brokers who use securities as collateral. They are usually made to finance the debit balances in margin accounts.

QUESTION NO: 252

Bubba Corporation has 3,500,000 shares of common stock outstanding and its trading volume in the few weeks has been as follows:

Week 1 - 43,000

Week 2 - 30,900

Week 3 - 37,500

Week 4 - 42,600

Week 5 - 33,000 (the most recent week)

If an affiliated person wanted to liquidate some of his holding of 100,000 shares pursuant to SEC Rule 144, how many shares could he sell?

A. 35,000

B. 36,000

C. 37,400

D. 38,500

Answer: B

Explanation:

36,000. Under Rule 144 up to one percent of the outstanding shares or the average weekly volume for the preceding four weeks, whichever is greater. The total volume for the last four weeks was 144,000 shares. The average is therefore 36,000 shares. This is greater than one percent of the shares outstanding (35,000).

QUESTION NO: 253

A bank or trust company that is acting as custodian for a mutual fund does which of the following?

A. guarantees investor losses on investments

B. provides investment advice to the fund's managers

C. redeem and issues fund shares

D. physically protects the fund's assets

Answer: D

Explanation:

physically protects the fund's assets. The custodian holds the assets of the fund. The transfer agent redeems and issues fund shares.

QUESTION NO: 254

A registered representative privately assures a customer that a certain stock will double within 18 months. During this period the stock the stock performs as predicted.

Which of the following statements is true?

A. the commentary was permissible because the stock advanced as the registered representative forecast

- B.** this is a violation because the SEC requires all information about stock prices to be publicly announced
- C.** this statement constituted a form of fraud prohibited under the Securities Exchange Act of 1934
- D.** the comment is permissible only if the representative had been registered with the SEC under the Investment Advisors Act of 1940

Answer: C

Explanation:

this statement constituted a form of fraud prohibited under the Securities Exchange Act of 1934. Such statements are fraudulent when rendered even if future events result in their accuracy.

QUESTION NO: 255

A withdrawal from a Roth IRA may be a qualified distribution if the Roth IRA has been open for at least:

- A.** 90 days
- B.** one year
- C.** 2 years
- D.** 5 years

Answer: D

Explanation:

five years. The five-year holding period begins on the first day of the year for which contributions were made.

QUESTION NO: 256

Which of the following is not an intangible drilling cost?

- A.** salaries
- B.** supplies and fuel
- C.** machinery and pipe
- D.** repairs

Answer: C

Explanation:

machinery and pipe. These are tangible fixed assets and not associated with intangible drilling costs.

QUESTION NO: 257

Bubba wishes to invest \$50,000 in three mutual funds offered by different underwriters with growth as the main objective. A recommendation to purchase only one such fund for \$50,000 might be more suitable to Bubba if:

- A.** the growth in one fund will be greater than the combined growth in three
- B.** the income from one fund will be greater than the combined income in three
- C.** a withdrawal plan would be easier to employ using a single fund
- D.** the purchase of one fund would probably be made at a break point allowing more dollars to be invested in fund shares

Answer: D

Explanation:

the purchase of one fund would probably be made at a break point allowing more dollars to be invested in fund shares. There is nothing inherently unsuitable about recommending three different funds. However, in most cases, a single fund offers satisfactory diversification and can be purchased with a reduction in sales charge.

QUESTION NO: 258

A typical money market instrument carries which of the following?

- A. serial bond maturity date
- B. long-term maturity date
- C. medium-term maturity date
- D. short-term maturity date

Answer: D

Explanation:

short-term maturity. A money market maintains liquidity and is defined as having maturity of less than one year.

QUESTION NO: 259

Under the Investment Company Act of 1940, what is the minimum net worth of a registered investment company?

- A. \$100,000
- B. \$50,000
- C. \$25,000
- D. \$5,000

Answer: A

Explanation:

\$100,000. This was a considerable amount of money in 1940.

QUESTION NO: 260

How much currency is one mil worth?

- A. one-tenth of one cent
- B. one-tenth of \$1
- C. one-tenth of \$100
- D. one-tenth of \$1,000

Answer: B

Explanation:

one-tenth of one cent. A point equals \$10 and a basis point equals ten cents.

QUESTION NO: 261

Smart Guys Securities Corporation has given a workable bid to Better Guys Securities Corporation. If market conditions change, Smart Guys may:

- A. not change the bid
- B. not change the bid unless first notifying the other dealer

- C. change the bid only with prior approval of the other dealer
- D. change the bid

Answer: D

Explanation:

change the bid. A workable bid indicates a price level where a dealer is willing to negotiate business. It is not a firm bid and may be changed before becoming firm.

QUESTION NO: 262

Which of the following statements is not true about a letter of intent?

- A. the letter of intent has a maximum duration of 13 months
- B. a shareholder may not redeem any shares for 13 months
- C. a letter of intent may be backdated by 90 days
- D. a certain portion of shares purchased are held in escrow until the terms of the letter are met

Answer: B

Explanation:

a shareholder may not redeem any shares for 13 months. Redemptions are permissible at any time. However, since escrowed shares are set aside to cover the difference in sales loads based on terms of the letter, redemptions prior to 13 months may liquidate the escrow account and thus return to the investor 100% of net asset value.

QUESTION NO: 263

How much money is a concession of $\frac{3}{8}$ worth for one municipal bond?

- A. \$0.375
- B. \$3.75
- C. \$37.50
- D. \$375.00

Answer: B

Explanation:

\$3.75. Three-eighths of a \$1,000 bond with a par price of 100.00 equals \$3.75.

QUESTION NO: 264

Regulation T is set at 50%. Bubba's account contains long positions in the following securities with the prices listed:

100 ABC \$30

200 XYZ \$70

200 QBB \$40

200 KKK \$25

Total market value = \$30,000

Debit balance in the account = \$12,000

Net equity balance of the account = \$18,000

What is the buying power in Bubba's account?

- A. \$3,000
- B. \$6,000

C. \$11,000

D. \$0

Answer: B

Explanation:

\$6,000. Divide Bubba's excess equity by the Reg T margin requirement of 50%.

QUESTION NO: 265

Which of the following does not decrease basis?

A. cash or property paid out

B. depletion of real property

C. losses

D. income from extraordinary sources

Answer: D

Explanation:

income from extraordinary sources. Single events, such as the sale of property, do not affect basis.

QUESTION NO: 266

Bubba buys \$100,000 of US Treasury 10½ s of 31 on margin. If the current market price is 92.16, what is Bubba's minimum deposit requirement?

A. \$4,625

B. \$5,550

C. \$10,000

D. \$25,000

Answer: B

Explanation:

\$5,500. The NYSE maintenance requirements on obligations of the US treasury vary depending upon the term of the instrument. For 20-year bonds, the requirement is 6% of the market value. Multiplying the market value of \$92,500 by 6% equals \$5,500.

QUESTION NO: 267

Bubba has a cash account and fails to make full and prompt payment for a purchase. The broker liquidated the transaction. Two weeks later, Bubba places another buy order for 100 shares of XYZ.

What does the broker do?

A. refuses the order

B. handles the order after obtaining a promise from Bubba to effect prompt settlement

C. requires a 25% down payment before executing the order

D. executes the order at its own risk

Answer: A

Explanation:

refuses the order. Reg T requires that under these circumstances the account must be frozen for 90 days. Any trade prior to that, requires cash in advance.

QUESTION NO: 268

Initial margin deposit minimum requirements are set by the:

- A. NYSE
- B. FINRA
- C. FRB
- D. FDIC

Answer: C

Explanation:

FRB. The Federal Reserve Board sets the initial margin deposit requirements. The NYSE set the ongoing minimum equity requirements.

QUESTION NO: 269

Under Rule 415 a corporation may file a single registration statement with the SEC covering its anticipated financing need for the next:

- A. one year
- B. two years
- C. three years
- D. five years

Answer: B

Explanation:

two years. The corporation can offer these securities in whole or in part for the ensuing two years.

QUESTION NO: 270

Which of the following persons would consider annual reports of a corporation as the most important factor in making investment decisions?

- A. a technical analyst
- B. a chartist
- C. a follower of the Dow theory
- D. a fundamental analyst

Answer: D

Explanation:

a fundamental analyst. These analysts are guided by computations about a company's performance using data in annual reports.

QUESTION NO: 271

Bubba wants to buy a US treasury bond with a bid of 97.28 and an asking of 98.2. How were these prices established?

- A. by the FINRA
- B. by the Federal Reserve Board
- C. by competitive bidding
- D. by the terms of the bond

Answer: C

Explanation:

by competitive bidding. The quoted prices for treasury bonds-as with all negotiable securities-is determined in the market by competitive bidding.

QUESTION NO: 272

Upon opening a new account for a customer, a registered representative should:

- A. inquire about age
- B. investigate the customer's credit rating
- C. determine what is suitable for the customer based upon his financial background
- D. all of the above

Answer: D

Explanation:

all of the above. These are required I Rule 405 of the NYSE and under suitability requirements in the Rules of Fair Practice of the FINRA.

QUESTION NO: 273

A new stock offering by Bubba Corporation provides details that state between 1,000,000 and 1,500,000 shares will be sold depending upon market conditions. This offering is a:

- A. best efforts
- B. standby
- C. mini-max
- D. market potential

Answer: C

Explanation:

mini-max. These offerings state the minimum and maximum number of shares offered.

QUESTION NO: 274

For a self-employed individual's retirement plan, ERISA permits an investment in which of the following?

- A. a unit investment trust
- B. a variable annuity
- C. a US Treasury bond
- D. all of the above

Answer: D

Explanation:

all of the above. Each of these investments qualify for a retirement plan or an IRA.

QUESTION NO: 275

Bubba's margin account has \$1,000 of SMA,. If he buys \$20,000 of listed securities, how much fully paid margin stock must he deposit to respond to a Reg T requirement of 50%?

- A. \$20,000
- B. \$9,000
- C. 10,000
- D. \$18,000

Answer: D

Explanation:

\$18,000. Fully paid marginable stock equal to the value of the purchase satisfies the requirement. Since Bubba's account already has \$1,000 of SMA, this comprises buying power of \$2,000. Therefore, he only needs to deposit the remaining \$18,000.

QUESTION NO: 276

Which of the following is a benefit of Section 8 low-income housing partnerships?

- A. high, reliable income
- B. large deductions
- C. potential for capital appreciation
- D. low risk

Answer: D

Explanation:

low risk. The low risk is a consequence of the government guarantee or subsidy.

QUESTION NO: 277

Which of the following is not an investment company within the terms of the Investment Company Act of 1940?

- A. a holding company dealing in mineral leaseholds
- B. a face-amount certificate company
- C. a unit investment trust company
- D. a management company

Answer: A

Explanation:

a holding company dealing in mineral leaseholds. The other choices are the three classifications of investment companies under the 1940 act.

QUESTION NO: 278

Bubba Corporation has a profit sharing plan. The company president, Bubba, is receiving the maximum plan contribution amount. The corporation has one other employee, who is eligible for the plan.

If this person earns \$12,000 per year, how much must be deposited in the plan for the employee?

- A. \$6,000
- B. \$3,000
- C. \$1,800
- D. \$12,000

Answer: B

Explanation:

\$3,000. The maximum contribution is 25% of compensation. That percentage of \$12,000 is \$3,000.

QUESTION NO: 279

The principal underwriter of an open-end investment company is frequently called:

- A. participating investment advisor
- B. sponsor
- C. selling group member
- D. investment counselor

Answer: B

Explanation:

sponsor. Also called the "distributor", these terms are interchangeable for an open -end investment company.

QUESTION NO: 280

Bubba is long spot Canadian dollars at 0.7400. If he wants to buy one put option on Canadian dollars with a strike price of 74 and a cost of \$0.35, what is Bubba's breakeven price for Canadian dollars?

- A. 0.4900
- B. 0.7365
- C. 0.7400
- D. 0.7435

Answer: D

Explanation:

0.7435. The put protects against a decline in the exchange rate for Canadian dollars. However, the cost of the put raises the breakeven point to 0.7435 ($0.7400 + 0.0035$).

QUESTION NO: 281

Which of the following pays interest at maturity only?

- A. a corporate serial bond
- B. US treasury bills
- C. Income bonds
- D. Series H savings bonds

Answer: B

Explanation:

US treasury bills. T-bills are purchased at a discount and do not have interest coupons. When surrendered, the par value is paid at maturity. All the other choices, if they are paying any interest, pay throughout the term of the issue.

QUESTION NO: 282

What is the name for the rate of discount from the list price that is paid to a municipal securities underwriting group member for its sales participation?

- A. commission
- B. concession
- C. spread
- D. takedown

Answer: D

Explanation:

takedown. The takedown is an additional allowance on bonds sold by a member.

QUESTION NO: 283

Registration of open-end investment company shares with the SEC implies that the:

- A. shares have investment merit
- B. SEC approves the issue
- C. SEC guarantees the accuracy of the disclosures in the registration statement
- D. prospectus contains the significant facts about the issue

Answer: D

Explanation:

prospectus contains the significant facts about the issue. The SEC never approves of guarantees an issue. It only attempts to verify that sufficient information is disclosed in the prospectus.

QUESTION NO: 284

Which of the following statements about the custodian for an open-end mutual fund is correct?

- A. the custodian performs all management, supervisory, or investment functions
- B. the custodian may perform an essential clerical service for the fund and its shareholders
- C. the custodian takes part in the sale of fund shares
- D. the custodian affords protection against decline in value of fund shares

Answer: B

Explanation:

the custodian may perform an essential clerical service for the fund and its shareholders. The custodian holds the cash and securities of the investment company and performs the bookkeeping functions. It does not have a supervisory role.

QUESTION NO: 285

In stabilizing a new issue, the manager may make a "syndicate penalty bid". This means that:

- A. the underwriter will be penalized his profit on any securities repurchased from his clients
- B. all stock purchased will be returned to the issuing corporation
- C. the manager will charge the syndicate the value of the shares
- D. any shares repurchased are added to the treasury stock of the issuing corporation

Answer: A

Explanation:

the underwriter will be penalized his profit on any securities repurchased from his clients. Since clients sell shares back to the syndicate shortly after the offering, the underwriter has not made a proper distribution. The underwriter therefore may be penalized any profit.

QUESTION NO: 286

Bubba buys one XYZ June 40 call for \$1,000 and sells one XYZ March 40 call for \$600. Subsequently, the June call is closed for \$1,200 and the March call for \$900.

What is Bubba's net result?

- A. \$100 loss
- B. \$100 profit

- C. \$200 loss
- D. \$200 profit

Answer: A

Explanation:

\$100 profit. The long position in the June call is a \$200 profit (\$1,200 - \$1,000). The short position in the March call is a \$300 loss (\$900 - \$300). Combining the gain and loss results in a \$100 loss.

QUESTION NO: 287

Which of the following will not result in termination of a limited partnership?

- A. transfer of ownership of a limited partnership interest
- B. sale or transfer of partnership assets
- C. majority vote of the limited partners to end the partnership
- D. arrival of the termination date established in the partnership agreement

Answer: A

Explanation:

transfer of ownership of a limited partnership interest. Transfer of ownership does "not" result in automatic termination.

QUESTION NO: 288

The definition of debentures is:

- A. a loan secured by real estate
- B. collateralized securities
- C. a worthless security
- D. securities backed by the general credit of the issuers but no specific collateral

Answer: D

Explanation:

securities backed by the general credit of the issuers but no specific collateral. And in the case of some issuers, that may be fairly worthless.

QUESTION NO: 289

Bubba entered an order to sell long 100 shares of XYZ at 38.75 stop limit. Thereafter, the following round-lot transactions occurred: 38.75, 38.65, 38.50.

At what price was Bubba's order executed?

- A. 38.75
- B. 38.65
- C. 38.50
- D. it was never executed

Answer: D

Explanation:

it was never executed. The first transaction at 38.75 elected the order, but since it was both a stop order and a limit order, there was never another transaction at 38.75. Consequently, Bubba's order was never executed.

QUESTION NO: 290

A management group may serve an investment company as its:

- A. underwriter
- B. custodian
- C. investment advisor
- D. both A and C

Answer: D

Explanation:

both A and C. The custodian must be independent of the investment company.

QUESTION NO: 291

What type of mutual fund would invest in equities and bonds?

- A. dual purpose
- B. balanced
- C. technology
- D. growth

Answer: B

Explanation:

balanced. These funds invest for growth with stock and income with bonds.

QUESTION NO: 292

Bubba is eligible for a Roth IRA. He may convert his SEP-IRA to a Roth IRA:

- A. without restriction
- B. only after the two-year holding period
- C. after a 90-day holding period
- D. not ever

Answer: A

Explanation:

without restriction. A SEP-IRA may be converted to a Roth IRA. The two-year holding period applies to SIMPLE-IRAs.

QUESTION NO: 293

A provision under which an underwriter can cancel a proposed public offering due to some unforeseen occurrence is known as a:

- A. blue sky provision
- B. contra-market clause
- C. fill or kill provision
- D. market-out clause

Answer: D

Explanation:

market-out clause. This is used only in the case of some unusual occurrence.

QUESTION NO: 294

Which of the following is normally the largest asset of a manufacturing company?

- A. sales
- B. inventory
- C. accounts receivable
- D. notes receivable

Answer: B

Explanation:

Inventory. A manufacturer will normally have more inventory than accounts receivable and notes receivable. Sales is not an asset category.

QUESTION NO: 295

A mutual fund characterized by a modest sales charge and an investment in a fixed portfolio of municipal securities is a:

- A. face-amount certificate company
- B. unit investment trust company
- C. management company
- D. open-end or closed-end company

Answer: B

Explanation:

unit investment trust company. This is an example of a fixed trust, which is a type of unit investment trust.

QUESTION NO: 296

In the distribution of a new issue, a dealer acting as an underwriter is said to have a:

- A. firm market
- B. divided account
- C. free ride
- D. firm commitment

Answer: D

Explanation:

firm commitment. The term underwriting means a guarantee to the issuing corporation. This is a firm commitment, unlike a best efforts offering where there is no guarantee.

QUESTION NO: 297

The FINRA markup policy applies to:

- A. agency sales OTC
- B. principal transactions in municipal bonds
- C. mutual fund sales
- D. new issues of corporate securities

Answer: A

Explanation:

agency sales OTC. Markup policy applies to basically all securities other than government and municipal offerings except where the security is offered under a current prospectus. Choices C and D are offered under a prospectus. Choice B involves municipal securities. Therefore, choice A is the only correct answer.

QUESTION NO: 298

Bubba maintains an individual cash account as well as a joint account with his wife, Bubbette. While Bubba is out of town on a fishing trip, Bubbette calls the brokerage firm with an order to buy 100 shares of Great Company, Inc., at the market value for Bubba individual account. It is a stock Bubba has previously informed the brokerage he wanted to buy at the "right price".

What does the brokerage do?

- A.** refuse to accept the order unless Bubba has provided a signed trading authorization in favor of Bubbette
- B.** execute the order as requested
- C.** enter the order only after receipt of written instructions to do so from Bubba
- D.** buy the stock in the joint account and, after verification from Bubba, journal the security to his individual account

Answer: A

Explanation:

refuse to accept the order unless Bubba has provided a signed trading authorization in favor of Bubbette. Unless Bubbette has been given written trading authorization over Bubba's account, trading orders cannot be accepted from her or any other person.

QUESTION NO: 299

Commercial paper is typically issued with a maturity date not exceeding:

- A.** 90 days
- B.** 6 months
- C.** 270 days
- D.** 1 year

Answer: C

Explanation:

270 days. A characteristic of commercial paper is relatively short duration, normally not exceeding 270 days.

QUESTION NO: 300

What does the following mean when printed on the stock exchange ticker tape?

- A.** one hundred shares of MST traded on the exchange and appear out of order on the tape
- B.** trading was suspended on MST pending dissemination of news
- C.** the last sale of MST was for 100 shares at 98.25
- D.** the preceding transaction in MST was two or more points different than 98.25

Answer: A

Explanation:

one hundred shares of MST traded on the exchange and appears out of order on the tape. The ticker symbol followed by "SLD" means that the print is out of sequence.

QUESTION NO: 301

With respect to the public offering of securities by an underwriting syndicate, which of the

following is true?

- A. the underwriting spread is greater than the selling concession
- B. the realallowance is greater than the selling concession
- C. the selling concession is greater than the underwriting spread
- D. the realallowance is greater than the underwriting spread

Answer: A

Explanation:

the underwriting spread is greater than the selling concession. The underwriting spread (or "gross spread") is the difference between the price paid to the issuer and the public offering price. The selling concession is the amount that the managing underwriter gives to dealers in the selling group. The realallowance is the amount that underwriters give to other dealers and is less than the selling concession.

QUESTION NO: 302

A tax-free rollover of assets between qualified retirement plans for the benefit of a specific individual is permitted so long as it is accomplished within:

- A. 30 days
- B. 60 days
- C. 90 days
- D. one year

Answer: B

Explanation:

60 days. ERISA permits 60 days for rollovers.

QUESTION NO: 303

Under which of the following conditions may a registered representative of a firm that is an underwriter of a new offering of common stock send to a client a copy of the firm's research report on that stock?

- A. if it is accompanied by a red herring
- B. if he has permission of his employer
- C. if his firm is not the managing underwriter
- D. under no circumstances

Answer: D

Explanation:

under no circumstances. The representative may send the red herring but not a research report of his firm.

QUESTION NO: 304

The gross spread in a new issue depends upon which of the following?

- A. the amount of the issue
- B. the type of industry in which the issuer is engaged
- C. the past record of the issuing corporation
- D. all of the above

Answer: D

Explanation:

all of the above. The gross spread (or "underwriting spread") depends upon all of these factors.

QUESTION NO: 305

Which of the following is not in the subscription agreement for a limited partnership offering?

- A. identification of the limited partners
- B. qualification of the limited partners for the subscription
- C. granting of power of attorney to the limited partners
- D. a record of sales of the partnership interests

Answer: C

Explanation:

granting of power of attorney to the limited partners. The other three choices are in the subscription agreement. Power of attorney is granted to the general partner, not the limited partners.

QUESTION NO: 306

To accommodate a customer's order to buy an over-the-counter stock, a broker/dealer is permitted to:

- A. sell him shares from the firm's inventory
- B. sell these shares short to the customer
- C. act as agent on this transaction
- D. all of the above

Answer: D

Explanation:

all of the above. All of the choices are normal ways for the broker to fill the customer's order.

QUESTION NO: 307

Regulation T is set at 50%. Bubba's account contains long positions in the following securities with the prices listed:

100 ABC \$30

200 XYZ \$70

200 QBB \$40

200 KKK \$25

Total market value = \$30,000

Debit balance in the account = \$12,000

Net equity balance of the account = \$18,000

If Bubba wants to buy 100 shares of DUM at \$30 per share, how much additional money must be deposited?

- A. \$3,000
- B. \$1,500
- C. \$2,000
- D. \$0

Answer: D

Explanation:

\$0. The cost of Bubba's purchase is \$3,000 (100 x \$30). But Reg T only requires 50% in Bubba's account and he has that.

QUESTION NO: 308

In June, Bubba bought 100 shares of XYZ at \$35. In November, he bought a listed put in XYZ with a \$35 strike price and a July expiration for a premium of \$600. In April, Bubba exercises the put option and uses his stock for delivery.

What is his resulting tax consequence?

- A. a \$600 capital loss
- B. neither profit nor loss
- C. cannot be determined without knowing the market price of XYZ upon exercise
- D. this is a wash sale and cannot be included in the investor's tax calculations

Answer: A

Explanation:

a \$600 loss. The strike price and Bubba's purchase price are the same. He has a \$600 loss on the option for the premium he paid.

QUESTION NO: 309

Approval for a registered investment company to change its investment objective from income to growth is required from which of the following?

- A. the FINRA
- B. the SEC
- C. a majority of the shareholders
- D. all of the above

Answer: C

Explanation:

a majority of the shareholders. Any factors that materially affect the interests of shareholders must be approved by a majority vote of the shareholders.

QUESTION NO: 310

In a corporation's financial statements, earned surplus is also recognized as:

- A. gross profit
- B. net income
- C. earnings retained after payment of dividends to shareholders
- D. operating income after payment of interest expense

Answer: C

Explanation:

earnings retained after payment of dividends to shareholders. The other choices are clearly incorrect. Earned surplus is also referred to as retained earnings.

QUESTION NO: 311

Provisions of SEC Rule 145 normally apply to an exchange of one security for another as a result of:

- A. a stock split
- B. a change in par value
- C. a merger
- D. a "no-sale" ruling issued by the SEC

Answer: C

Explanation:

a merger. Rule 145 basically applies to mergers, consolidations, and acquisitions.

QUESTION NO: 312

A case of leverage is:

- A. selling common stock short and buying warrants for the equivalent number of shares followed by subscribing to the shares and covering the short
- B. borrowing at 6% and investing the funds at 10%
- C. buying stock on the NYSE and later selling it the same day on the CBOE
- D. redeeming a convertible bond before maturity

Answer: B

Explanation:

borrowing at 6% and investing the funds at 10%. Leverage is all about using money obtained at a lower cost than what can be earned deploying the funds elsewhere. It is unrelated to arbitrage.

QUESTION NO: 313

Which of the following holders of unregistered stock is precluded from selling shares under Rule 144?

- A. an institutional investor
- B. an officer of the issuing corporation
- C. a broker/dealer firm
- D. a holder of more than 10% of the outstanding stock

Answer: C

Explanation:

a broker/dealer firm. A broker/dealer cannot use Rule 144 when selling stock.

QUESTION NO: 314

Municipal bond brokers generally conduct the following:

- A. trade for dealer banks
- B. trade for non-bank dealers
- C. trade for their own account
- D. both A and B

Answer: D

Explanation:

both A and B. Brokers generally operate as agents attempting to locate buyers or sellers for bond dealers. They do not trade for their own accounts or deal directly with individual investors.

QUESTION NO: 315

Under what circumstances may a municipal securities dealer guarantee a customer against loss in market value of bonds?

- A. under no circumstances
- B. only if the agreement is in writing
- C. only if the bonds are rated AAA or Aaa
- D. only if the bonds are insured

Answer: A

Explanation:

under no circumstances. No guarantees may be made against loss of market value because no one can guarantee the direction of the market. Insured bonds are protected against loss of principal and interest but not against market value depreciation.

QUESTION NO: 316

Which of the following would be least useful to an analyst making a technical market report?

- A. advances and declines
- B. new highs and lows
- C. the short interest
- D. predictions of recession in the economy

Answer: D

Explanation:

predictions of recession in the economy. All of the other choices are technical market indicators. An economic forecast is "fundamental" market data.

QUESTION NO: 317

Bubba buys a ten-year municipal and at 102 and sells it five years later at 101. What is tax treatment?

- A. a \$10 long-term capital loss is realized
- B. the \$10 loss is applied as a reduction against ordinary income
- C. no capital loss or income deduction is realized
- D. the \$10 loss is applied against future profits in municipal securities

Answer: C

Explanation:

no capital loss or income deduction is realized. The \$20 premium is amortized over the ten-year life of the bond. After five years, half of the premium has been written down. The remaining premium is the same as the premium received upon selling the bond. The sale at 101 results in no loss or gain.

QUESTION NO: 318

In the sale of open-end investment company shares, the amount at which the sales charge is reduced on quantity transactions is referred to as the:

- A. margin
- B. breakpoint
- C. split

D. spread

Answer: B

Explanation:

breakpoint. This is the dollar value at which the sales charge is reduced.

QUESTION NO: 319

A revenue bond is issued by a state agency. The state legislature is granted authority to apportion money to support the debt services if necessary, but is not legally obligated to do so.

What type of bond is this?

A. limited tax

B. double-barreled

C. Series 8

D. moral obligation

Answer: D

Explanation:

moral obligation. The lack of a legally binding obligation removes the issue from the general obligation category. Although defaults are possible, it is usually held that no state legislature would allow a moral obligation issue to default.

QUESTION NO: 320

What percentage of maintenance charges and debt service are covered by the rate covenant of a revenue bond issued to finance a municipal toll road?

A. 75%

B. 100%

C. 120%

D. 150%

Answer: C

Explanation:

120%. The toll facility usually sets rates to cover 120% of maintenance and debt service.

QUESTION NO: 321

Bubba want to buy a CMO. In general, how often should he expect to receive interest payments?

A. every week

B. every month

C. every year

D. at maturity

Answer: B

Explanation:

every month. Collateralized Mortgage Obligations generally pay interest each month. However, some CMOs pay interest quarterly or semiannually.

QUESTION NO: 322

Which of the following is not an attribute of US treasury bills?

- A. an unusually high degree of liquidity
- B. always sells at a discount to face value
- C. is most often issued with three-month, six-month, and one-year maturities
- D. interest is exempt from federal income taxes

Answer: D

Explanation:

interest is exempt from federal income taxes. This is the choice that is "not" an attribute of treasuries. All of the other choices are attributes of US treasury bills, which are subject to federal income taxes.

QUESTION NO: 323

Which of the following sources provides news of prospective municipal securities sales to underwriters?

- A. the Blue List
- B. the daily Bond Buyer
- C. the SEC News Digest
- D. The Wall Street Journal

Answer: B

Explanation:

the daily Bond Buyer. News is covered in the daily Bond Buyer as well as Munifacts, which is operated by the daily Bond Buyer. The Blue List shows only current offerings, not prospective ones.

QUESTION NO: 324

Bubba has been classified as a restricted person according to Rule 2790. He may purchase equity securities of an IPO except:

- A. to purchase securities to avoid dilution
- B. when the new issue of securities is purchased pursuant to a stand-by agreement
- C. when the transaction is exempt by an order of the FINRA
- D. when the new issue of securities is purchased pursuant to a best effort basis

Answer: D

Explanation:

when the new issue of securities is purchased pursuant to a best effort basis. All the other choices are allowable under the rule "except" this one.

QUESTION NO: 325

Most publicly owned securities are:

- A. listed
- B. over-the-counter
- C. unregistered
- D. exempt from SEC registration requirements

Answer: B

Explanation:

over-the-counter. The OTC market is much larger than any listed markets.

QUESTION NO: 326

Which of the following organizations usually has a prominent role in guiding investment policies of mutual funds?

- A. the plan company
- B. the management group
- C. the custodian bank
- D. the underwriter

Answer: B

Explanation:

the management group. The management group is actually comprised of the management company (including the underwriter) and the investment advisor.

QUESTION NO: 327

The FINRA markup policy requires that over-the-counter transactions with a customer be at:

- A. prices reasonably related to the current market price of the security
- B. a markup not to exceed 5% of the current offering price
- C. prices reasonably related to the dealer's cost
- D. a markup based on previous activity in the customer's account

Answer: A

Explanation:

prices reasonably related to the current market price of the security. All markups must be based upon the current market rather than the dealer's cost.

QUESTION NO: 328

The general purpose of the Securities Act of 1933 is to:

- A. regulate the activities of investment advisers
- B. regulate the sale of securities on national exchanges
- C. provide for disclosure of information about new securities offerings
- D. provide for disclosure of the financial condition of underwriters

Answer: C

Explanation:

provide for disclosure of information about new securities offerings. The 1933 act is primarily concerned with registration and disclosures relating to new securities.

QUESTION NO: 329

Bubba opens a margin account and sells short 100 shares of XYZ at \$50. Assuming a Reg T requirement of 50%, what is the opening balance in Bubba's account?

- A. \$10,000
- B. \$7,500
- C. \$5,000
- D. \$2,500

Answer: B

Explanation:

\$7,500. The short sale transaction is \$5,000. The Reg T required deposit is \$2,500 ($\$5,000 \times 50\%$). Adding both results in \$7,500.

QUESTION NO: 330

An investment company incapable of issuing a long-term debt instrument is:

- A. a face-amount certificate company
- B. a unit investment trust
- C. a closed-end investment company
- D. an open-end investment company

Answer: D

Explanation:

an open-end investment company. By definition, open-end funds may not issue senior securities. They only issue "voting stock".

QUESTION NO: 331

Bubba has a short margin account with equity of \$15,000 and a credit balance of \$28,000. What is the current NYSE minimum equity maintenance requirement on Bubba's account?

- A. \$3,900
- B. \$4,500
- C. \$3,250
- D. \$3,750

Answer: A

Explanation:

\$3,900. The requirement for short accounts is 30% of the current market value. The market value is \$13,000 ($\$28,000 - \$15,000$). Multiplying by 30% equals \$3,900.

QUESTION NO: 332

Which of the following has the greatest risk?

- A. a guaranteed corporate bond
- B. a GNMA bond
- C. a Series H bond
- D. a treasury bill

Answer: A

Explanation:

a guaranteed corporate bond. All of the other securities are obligations of the US government, which is considered to have minimal or no risk.

QUESTION NO: 333

Bubba buys a 5% municipal bond maturing in 15 years that is trading at a market price of 85. What is the current yield?

- A. 5.00%
- B. 5.88%
- C. 6.49%

D. 5.10%

Answer: B

Explanation:

5.88%. The current yield is the annual interest divided by the price. The bond will pay \$50 of interest per year (\$1,000 face amount times 5%). Dividing by the price of \$850 equals 5.88%.

QUESTION NO: 334

A 5% markup policy applies to:

- A. riskless transactions
- B. primary distributions
- C. registered secondaries
- D. mutual funds

Answer: A

Explanation:

riskless transactions. The markup policy applies to everything except securities sold under a prospectus, which is the case with the other choices.

QUESTION NO: 335

Big Easy Investment Banking, Inc., is participating in an Eastern account underwriting of \$10 million of municipal bonds by agreeing to underwrite 10% of the issue. One week later, \$4 million remains unsold but Big Easy has distributed \$1.5 million of bonds.

What is the liability of Big Easy remaining in the account?

- A. \$0
- B. \$400,000
- C. \$600,000
- D. \$1,000,000

Answer: B

Explanation:

\$400,000. In an Eastern account, liability remains open until the entire syndication is closed. Therefore, Big Easy has a liability for 10% of the unsold portion. Since the unsold portion is \$6 million, the liability for Big Easy is 10% of that amount, which is \$400,000.

QUESTION NO: 336

Which of the following is not prohibited of a general partner?

- A. acting in such a way as to impede the orderly business of the partnership
- B. buying or selling assets of the partnership except to foster the business of the partnership
- C. competing in any way with the partnership
- D. accepting compensation from any other partnership

Answer: D

Explanation:

accepting compensation from any other partnership. A general partner may be the partner in more than one partnership.

QUESTION NO: 337

When an index option is exercised, settlement is made by:

- A. delivery of the underlying securities
- B. delivery of a futures contract
- C. cash
- D. any of the above

Answer: C

Explanation:

cash. Index options are settled by payment of cash.

QUESTION NO: 338

Which of the following municipal bonds may be grouped under the classification of "revenue bonds"?

- A. special tax
- B. new housing authority
- C. general obligation
- D. limited tax

Answer: A

Explanation:

special tax. The other categories are not revenue bonds. Special tax is the only type that fits the general grouping.

QUESTION NO: 339

Which of the following statements regarding mutual funds is true?

- A. the custodian can also be the transfer agent
- B. the sponsor receives a management fee based on the fund's total assets
- C. the terms "management company" and "investment advisor" are interchangeable
- D. the management company receives a portion of the sales load for managing the fund assets

Answer: A

Explanation:

the custodian can also be the transfer agent. This has become increasingly common. None of the other choices are correct.

QUESTION NO: 340

Bubba buys one XYZ October 80 put and sells one XYZ October 70 put.

What is his position called?

- A. calendar spread
- B. money spread
- C. straddle
- D. combination

Answer: B

Explanation:

money spread. Since the strike prices are different, but not the expiration date, this is a money spread (sometimes called a "price spread" or a "vertical spread").

QUESTION NO: 341

A basis point is:

- A. 0.10%
- B. 0.01%
- C. 1.00%
- D. 0.001%

Answer: B

Explanation:

0.01%. A basis point is one-hundredth of a point. Since a point is 1%, a basis point is 0.01%. A bond price change of one basis point is ten cents ($\$1,000 \times 0.01\%$).

QUESTION NO: 342

Bubba is concerned about the liquidity of a possible municipal bond purchase. He is therefore probably most interested in the rating supplied by which of the following?

- A. the bond buyers
- B. Moody's
- C. White's
- D. Dow Jones

Answer: C

Explanation:

White's. White's ratings are based on trading market data as opposed to the financial data of the issue, which is used by Moody's as well as S&P.

QUESTION NO: 343

Bubba purchases 100 shares of XYZ at 78 and, on the same day, writes 1 XYZ October 80 call for a premium of 4. If the option expires unexercised, what is Bubba's profit on the 100 shares of stock?

- A. \$200
- B. \$400
- C. \$600
- D. cannot be determined

Answer: D

Explanation:

cannot be determined. Since Bubba has not yet sold the stock, a profit cannot be determined on the stock. He has a \$400 profit on the option.

QUESTION NO: 344

Bubba buys a 5% municipal bond maturing in 15 years that is trading at a market price of 85. What is the yield to maturity using the "rule of thumb" method?

- A. 5.00%
- B. 5.88%
- C. 5.10%
- D. 6.49%

Answer: D

Explanation:

6.49%. Divide the discount from par value of \$150 (\$1,000 - \$850) by the number of years to maturity (15) to determine the annual discount. Add the result of \$10 to the annual interest (\$50) to determine the total annual return. Divide the result of \$60 by the average of the current price (85) and par (100). The result is 60 divided by 92.5, which equals 6.49%.

QUESTION NO: 345

The net asset value of a mutual fund was \$9.72 last month. This month it is calculated at \$9.85.

What is the change in value called?

- A. yield
- B. asset revaluation
- C. appreciation
- D. capital gain

Answer: C

Explanation:

appreciation. That's the correct term for increase in value.

QUESTION NO: 346

What is represented by the net investment income of an open-end investment company?

- A. net profits from the investment company operation
- B. net gains on sales of portfolio securities
- C. dividends, interest, and net gains on sales of securities
- D. net income from dividend and interest paid on securities in the fund portfolio

Answer: D

Explanation:

net income from dividend and interest paid on securities in the fund portfolio. This is the definition of net investment income, which excludes gains on sales of securities.

QUESTION NO: 347

In mid-September, Bubba sells one XYZ February 50 call at \$6. It subsequently expires without being exercised.

How is the premium taxed?

- A. Bubba's cost of the underlying stock is reduced
- B. the \$600 premium is a capital gain
- C. the \$600 premium constitutes ordinary income
- D. the \$600 premium is rolled over into another XYZ call with the next longest expiration date

Answer: B

Explanation:

the \$600 premium is capital gain. That's simply how the tax law works.

QUESTION NO: 348

When the market value in a long margin account decreases, the SMA will:

- A. increase
- B. decrease
- C. stay the same
- D. fluctuate

Answer: C

Explanation:

stay the same. The SMA does not decline as the market value declines.

QUESTION NO: 349

Under the terms of the 1970 Securities Investor Protection Act, what is the status of a customer whose account assets exceed SIPC insurance coverage when his broker/dealer becomes insolvent?

- A. the US Treasury is pledged to make up the deficiency
- B. all broker/dealers are assessed to fully satisfy the deficiency
- C. the customer becomes a general creditor of the insolvent firm for the amount of deficiency
- D. SIPC will issue a debenture to guarantee eventual repayment of the deficiency

Answer: C

Explanation:

the customer becomes a general creditor of the insolvent firm for the amount of deficiency. After the SIPC coverage is exhausted, the customer becomes a general creditor. Due to the insolvency of the broker/dealer, there is no likelihood of the customer receiving restitution.

QUESTION NO: 350

Which of the following is true about option prices?

- A. premiums on options for listed stocks are usually greater than on unlisted stocks
- B. premiums on options of higher-priced stocks are usually greater than on lower-priced stocks
- C. premiums on options of well-known companies are usually larger than on lesser-known companies
- D. premiums on options of volatile stocks are usually larger than on less volatile stocks

Answer: D

Explanation:

premiums on options of volatile stocks are usually larger than on less volatile stocks. The likelihood of exercise increases with the volatility of a stock. Therefore, a higher premium is demanded.

QUESTION NO: 351

What does the bond buyer placement ratio represent?

- A. the amount of municipal bonds held by banks and insurance companies as a percentage of municipal bonds outstanding
- B. the amount of municipal bonds distributed weekly as a percentage of each week's new issue accounts of more than \$1 million
- C. the amount of municipal bonds offered in the daily Blue List as a percentage of the day's new issue amounts of more than \$1 million

D. the par value amount of municipal bonds offered in the Blue List as a percentage of the 30-day visible supply for competitive and negotiated issues

Answer: B

Explanation:

the amount of municipal bonds distributed weekly as a percentage of each week's new issue accounts of more than \$1 million. This is the definition of the ratio.

QUESTION NO: 352

Which of the following statements about mutual fund fees is accurate?

A. the management group receives a fee based upon the amount of assets in the fund

B. the sponsor receives a management fee for buying and selling the fund's portfolio securities

C. the management group receives part of the sales charge in addition to a management fee

D. the custodian receives part of the management fee in addition to a fee for safekeeping of the fund's securities

Answer: A

Explanation:

the management group receives a fee based upon the amount of assets in the fund. The management fee is based upon the fund's assets. The sale charge in choice C is received by the fund sponsor (underwriter), which could include the management group but not necessarily.

QUESTION NO: 353

If federal excise taxes were increased by the government, what would the typical investor do about his securities portfolio?

A. sell treasuries and invest in municipal bonds

B. sell corporate bonds and invest in treasuries

C. sell municipal bonds and invest in high quality growth stocks

D. take no action as a result of the tax increase

Answer: D

Explanation:

take no action as a result of the tax increase. Excise taxes normally are not important to the typical investor. They generally have little relative effect on securities prices.

QUESTION NO: 354

Bubba holds 200 shares of common stock in a utility company and receives rights to subscribe to an additional 100 shares at \$20. The utility company is raising \$40 million of new capital.

How many rights does Bubba receive?

A. 20

B. 50

C. 100

D. 200

Answer: D

Explanation:

200. In an issue of rights, there is always one right per share. Bubba owns 200 shares and thus receives the same number of rights.

QUESTION NO: 355

Bubba has no existing positions in his account and writes 1 XYZ July 60 put and 1 XYZ July 60 call.

What is this position called?

- A. short combination
- B. long combination
- C. long straddle
- D. short straddle

Answer: D

Explanation:

short straddle. A straddle is a put and call on the same stock with the same strike price and expiration date.

QUESTION NO: 356

A call option is in the money when the market value of the underlying stock is:

- A. lower than the strike price of the option
- B. the same as the strike price of the option
- C. higher than the strike price of the option
- D. higher than the strike price plus the premium

Answer: C

Explanation:

higher than the strike price of the option. The premium paid is not relevant. All that matters are the strike price of the option relative to the market value of the underlying stock.

QUESTION NO: 357

According to FINRA Conduct Rules, a party judged guilty of a rule infraction by the District Business Conduct Committee may then appeal to:

- A. the SEC
- B. the FINRA Board of Governors
- C. the public court system
- D. the FINRA Board of Arbitration

Answer: B

Explanation:

the FINRA Board of Governors. The first appeal is to the Board of Governors, then to the SEC, and then to the federal courts.

QUESTION NO: 358

Bubba sells short 100 XYZ at \$60 and makes the required Regulation T deposit of 50%. XYZ then rises in price to \$65.

At this point what is the credit balance?

- A. \$2,500
- B. \$3,500
- C. \$6,000
- D. \$9,000

Answer: D

Explanation:

\$9,000. Credit balances in short accounts do not change because of fluctuation in market prices. The initial deposit of \$3,000 ($\$6,000 \times 50\%$) plus the \$6,000 from the short sale leave a credit balance of \$9,000.

QUESTION NO: 359

In early September, Bubba buys 100 shares of XYZ for \$83 per share and simultaneously writes one XYZ March 90 call for \$4.

What is the price for XYZ stock at which Bubba will breakeven?

- A. \$94
- B. \$87
- C. \$86
- D. \$79

Answer: D

Explanation:

\$79. Bubba's breakeven is his cost of the stock less the premium he received ($\$83 - \4).

QUESTION NO: 360

Which of the following is identified as a funded debt instrument?

- A. US treasury bond
- B. Series EE savings bond
- C. corporate bond
- D. Fannie Mae bond

Answer: C

Explanation:

corporate bond. All of the other securities are issues backed by the US government, which are not considered funded debt.

QUESTION NO: 361

Which of the following situations is possible for a writer of a covered call option?

- A. buying the underlying stock if the call is exercised
- B. depositing margin into his account
- C. purchasing a put option to hedge against unlimited loss potential
- D. selling the security, he already owns

Answer: D

Explanation:

selling the security he already owns. A "covered" call is written on stock already owned.

QUESTION NO: 362

Under Regulation T of the Federal Reserve, when may a broker overlook an amount due in a customer's account?

- A. if it does not exceed \$1,000
- B. if the client makes a request in writing
- C. if the value of a trade is less than \$1,000
- D. under no circumstances

Answer: A

Explanation:

if it does not exceed \$1,000. If the net amount due is less than \$1,000 no action is required under Reg T.

QUESTION NO: 363

Which of the following stock exchanges is not registered with the SEC?

- A. Pacific Stock Exchange
- B. Boston Stock Exchange
- C. Chicago Stock Exchange
- D. all are registered

Answer: D

Explanation:

all are registered. All are registered with the SEC.

QUESTION NO: 364

Which of the following statements is not true about exchange traded options?

- A. they are adjusted for stock dividends
- B. they are adjusted for stock splits
- C. they are adjusted for cash dividends
- D. they are adjusted for reverse splits

Answer: C

Explanation:

they are adjusted for cash dividends. This is the statement that is "not" true.

QUESTION NO: 365

The total assets of a corporation are \$840,000, of which \$350,000 are current items. Total liabilities are \$460,000, of which \$290,00 are fixed obligations.

How much is the corporation's working capital?

- A. \$60,000
- B. \$110,000
- C. \$180,000
- D. \$380,000

Answer: C

Explanation:

\$180,000. Subtract current liabilities from current assets. Current liabilities are \$170,000 (\$460,000 - \$290,000).

QUESTION NO: 366

A company earns \$6 per share and pays out 20% in common stock dividends. What does the stock yield if it sells at \$30 per share?

- A. 10%
- B. 4%
- C. 2.5%
- D. 6%

Answer: B

Explanation:

4%. The dividend is \$1.20 per share ($\$6 \times 20\%$). Divide this by the stock price to obtain the yield.

QUESTION NO: 367

A stock with a current P/E of 17 is selling at \$74.50 per share. What are the company's earnings in the trailing 12 months?

- A. about \$4.28
- B. \$6.20
- C. \$1.70
- D. impossible to calculate from this information

Answer: A

Explanation:

about \$4.28. Divide the market price by the P/E.

QUESTION NO: 368

Bubba buys municipal bonds with a \$100,000 principal amount at 89 on margin. His account has no cash or securities.

What is his minimum required deposit?

- A. \$5,080
- B. \$13,350
- C. \$22,500
- D. \$50,000

Answer: B

Explanation:

\$13,350. Munis are not subject to Reg

T. The NYSE maintenance requirement on munis is the greater of 15% of the market value or 7% of the principal amount.

QUESTION NO: 369

Bubba buys a \$4 convertible preferred with a \$50 par value that is exchangeable for common stock at 47.50. If the preferred stock is trading at 52 and the common stock at 51, Bubba determines that the preferred stock is:

- A. overpriced and will quickly decline
- B. selling at a 4% premium over conversion value
- C. underpriced and should rise quickly

D. going to be called when the common stock price is \$52

Answer: C

Explanation:

underpriced and should rise quickly. The parity price for the common stock is about \$49.38 - determined as: $50 / 47.50 = 1.053$ $52 / 1.053 = 49.38$ Since the common stock is trading at 51, the preferred is underpriced.

QUESTION NO: 370

FINRA advertising standards permit a dealer to state that a CMO has an implied AAA rating if the securities are issued:

- A. with an average life no longer than ten years
- B. by a US government agency
- C. by a private issuer who has not yet received an expected AAA rating
- D. in amounts less than \$1,000,000

Answer: B

Explanation:

by a US government agency. Since government agencies do not apply for ratings, it is permissible to state that its issues have an "implied AAA rating". Private issuers must receive a rating in order to state it in advertising.

QUESTION NO: 371

In the distribution of a new issue underwriters or selling group member are prohibited from:

- A. selling to the public at the so-called public offering price
- B. selling to another broker or dealer who needs to fill an accommodation order
- C. withholding blocks of a new issue in the member's account
- D. all of the above

Answer: C

Explanation:

withholding blocks of a new issue in the member's account. Underwriters and selling group members are prohibited from keeping blocks of a new issue for their own accounts.

QUESTION NO: 372

Bubba buys a bond issued at par with a 5% coupon that is convertible into common stock at \$40. The bond increases in value by 20 points.

What is the conversion parity of the stock?

- A. \$25
- B. \$40
- C. \$48
- D. \$50

Answer: C

Explanation:

\$48. A 20-point increase results in a bond value of \$1,200. Divide that by the conversion ratio of 25 shares to arrive at \$48.

QUESTION NO: 373

Which of the following rights does an ADR holder not have?

- A. preemptive rights
- B. the right to vote for your mother-in-law as a board member
- C. the right to transfer ownership
- D. the right to see financial statements

Answer: A

Explanation:

preemptive rights. Holders of ADRs do not have preemptive rights, although they have most other rights of shareholders, including the right to vote for board members-even a mother-in-law

QUESTION NO: 374

In a competitive bidding for mortgage bonds of a large public utility the winning underwriter is determined by:

- A. the highest dollar amount paid to the issuer
- B. the lowest net interest cost to the issuer
- C. the shortest maturity date for the bonds
- D. the refunding and sinking fund terms in the indenture

Answer: B

Explanation:

the lowest net interest cost to the issuer. All competitive bids are based upon the lowest interest cost.

QUESTION NO: 375

Which of the following is true of treasury stock?

- A. it has voting rights
- B. it is entitled to receive dividends
- C. it is stock that has not been issued
- D. it is stock that has been reacquired by the issuer

Answer: D

Explanation:

it is stock that has been reacquired by the issuer. Treasury stock has no voting rights and is not entitled to receive dividends. The shares have been issued but are no longer outstanding in the market.

QUESTION NO: 376

If a municipality has funds available to make a partial call of an issue of outstanding serial bonds, which bonds should be called first?

- A. the shortest maturity
- B. the maturity with the largest number of bonds
- C. the longest maturity
- D. the maturity bearing the lowest interest rate

Answer: C

Explanation:

the longest maturity. These bonds are called first because the municipality will save the interest costs for the longest period of time.

QUESTION NO: 377

A four-letter symbol assigned to an issue is characteristic of an equity security that is:

- A. authorized for inclusion in the NASDAQ system
- B. listed on the NYSE
- C. admitted to unlisted trading privileges on a regional stock exchange
- D. trading in less than 100-share units on the American Stock Exchange

Answer: A

Explanation:

authorized for inclusion in the NASDAQ system. Stocks listed on an exchange have no more than three characters in their symbols.

QUESTION NO: 378

Bubba's margin account has securities valued at \$20,000 and an \$8,000 credit balance. What is the equity in Bubba's account?

- A. \$8,080
- B. \$12,800
- C. \$20,000
- D. \$28,000

Answer: D

Explanation:

\$28,000. The equity is the market value plus the credit balance.

QUESTION NO: 379

If recaptured deductions are added to income, recaptured investment tax credits are added to:

- A. income
- B. basis
- C. gains
- D. taxes

Answer: D

Explanation:

taxes. Tax credits are not deductible expenses and have no effect on basis.

QUESTION NO: 380

Bubba buys a municipal bond at 102 and holds it ten years to maturity. For tax purposes, how is that premium treated?

- A. recorded as a long-term capital loss
- B. an ordinary loss taken as a deduction from taxable income
- C. amortized over the life of the bond resulting in no loss at maturity
- D. carried forward as a premium loss applied against profits realized on future municipal

securities

Answer: C

Explanation:

amortized over the life of the bond resulting in no loss at maturity. For tax purposes, premiums are amortized over the life of the bond. Some amount is taken each year.

QUESTION NO: 381

Which of the following is not classified as a money market instrument?

- A. banker's acceptances
- B. commercial paper
- C. American Depository Receipts
- D. treasury bills

Answer: C

Explanation:

American Depository Receipts. American Depository Receipts are used to facilitate transfer of ownership in foreign securities. They are not money market instruments.

QUESTION NO: 382

Convertible preferred stock has all of the following characteristics except:

- A. a lower dividend rate than non-convertible preferred
- B. a dilution of earnings if converted into common stock
- C. a requirement for shareholders to always accept the call price when called
- D. required dividend payments to shareholders before any dividends are paid to holders of common stock

Answer: C

Explanation:

a requirement for shareholders to always accept the call price when called. All of the other statements are true "except" this one. Convertible preferred shareholders have a n opportunity to convert to common stock. There is no forced call price.

QUESTION NO: 383

In what broad category of municipal bonds are "limited tax" bonds placed?

- A. general obligation
- B. special tax
- C. revenue
- D. new housing authority

Answer: A

Explanation:

general obligation. A limited tax bond is generally classified as general obligation.

QUESTION NO: 384

In June, Bubba bought 100 shares of XYZ at \$35. In November, he bought a listed put in XYZ with a \$35 strike price and a July expiration for a premium of \$600.

If the option expires without being exercised, how is the premium expense treated by Bubba?

- A. as a \$600 capital loss
- B. as a \$600 capital gain
- C. \$600 is added to his acquisition cost for the stock
- D. \$600 is held in abeyance until the stock is eventually sold

Answer: A

Explanation:

a \$600 capital loss. The amount of premium paid is the cost and the recovery is zero, resulting in a \$600 capital loss.

QUESTION NO: 385

Which of the following clients could not open a margin account?

- A. an uncovered option writer
- B. a corporation
- C. a husband and wife in a joint account
- D. a custodian under UGMA

Answer: D

Explanation:

a custodian under UGMA. The Uniform Gifts to Minors Act requires securities registration in the name of the custodian for the benefit of the minor. A margin account does not qualify because such an account has all securities registered in street name.

QUESTION NO: 386

A wealth investor gives Bubba discretion to invest \$50,000 for him in any way Bubba sees fit. Therefore, Bubba must:

- A. a registered representative with the SEC under the Investment Advisors Act of 1940
- B. conform to the prudent man requirements in that state
- C. furnish written documents of authority to the brokerage firm executing the orders
- D. be registered with the NYSE and FINRA as a representative

Answer: C

Explanation:

furnish written documents of authority to the brokerage firm executing the orders. The wealthy investor has simply given Bubba discretion over the account. The brokerage firm only requires evidence that this authority has been granted to Bubba.

QUESTION NO: 387

Who owns a corporation?

- A. the owners of debentures
- B. the holders of common stock
- C. the holders of common stock and the holders of preferred stock
- D. the government

Answer: C

Explanation:

the holders of common stock and the holders of preferred stock. The holders of all classes of stock are the owners. Each stock class has separate privileges, but all represent ownership.

Even if the government is an owner, it holds shares of stock.

QUESTION NO: 388

Assuming all of the following bonds from the same issuer are callable now, which one would most likely get called first?

- A. 8% maturing 1-15-2016
- B. 8% maturing 1-15-2007
- C. 4% maturing 1-15-2012
- D. 4% maturing 1-15-2007

Answer: A

Explanation:

8% maturing 1-15-2016. Bonds with the highest coupon rates would be the first to most likely get called. The issuer will look to issue new debt at a lower rate. Since there are two 8% bonds, the one that would most likely get called are those with the longest maturity.

QUESTION NO: 389

The expiration date of a listed option is:

- A. the last day of the expiration month
- B. the third Saturday of the expiration month
- C. the Saturday following the third Friday of the expiration month
- D. the third Friday of the expiration month

Answer: C

Explanation:

the Saturday following the third Friday of the expiration month. It is NOT the third Saturday. The final day to trade options is the third Friday of the expiration month. The options expire the next day.

QUESTION NO: 390

Which of the following is not a marketable security?

- A. tax anticipation bonds
- B. municipal bonds
- C. treasury bonds
- D. Series EE bonds

Answer: D

Explanation:

Series EE bonds. All the other securities may be traded. Series EE bonds are purchased and held to maturity. They are not tradable.

QUESTION NO: 391

Book value of a corporation is also known as:

- A. net tangible asset value per share
- B. intangible value
- C. par value
- D. dilution value

Answer: A

Explanation:

net tangible asset value per share. Book value is much easier to say.

QUESTION NO: 392

Which of the following securities is traded only in the over-the-counter market?

- A. corporate bonds
- B. preferred stocks
- C. open-end investment companies
- D. closed-end investment companies

Answer: C

Explanation:

open-end investment companies. Open-end mutual funds are a continuous offering of new securities that are not traded on an exchange. They trade only in the over-the-counter market. The other choices may trade over-the-counter or on exchanges.

QUESTION NO: 393

Which of the following options positions is characteristic of a short straddle?

- A. long one put and short one call
- B. long one call and short one put
- C. long one put and short one call
- D. long one call and long one put

Answer: C

Explanation:

long one put and short one call. This is a short straddle. A position that is long one put and long one call is a long straddle.

QUESTION NO: 394

In June, Bubba bought 100 shares of XYZ at \$35. In November, he bought a listed put in XYZ with a \$35 strike price and a July expiration for a premium of \$600.

If Bubba sells the stock at \$45 in July, what is his resulting tax liability for that transaction?

- A. no liability established until the offsetting option position is closed
- B. a \$400 gain
- C. a \$1,000 gain
- D. a \$400 capital loss

Answer: C

Explanation:

a \$1,000 gain. There is a \$1,000 gain on the stock. The option is a separate capital asset.

QUESTION NO: 395

A front-end load mutual fund plan is most suitable for:

- A. a voluntary accumulation plan
- B. a contractual plan
- C. an automatic withdrawal plan

D. an optional withdrawal plan

Answer: B

Explanation:

a contractual plan. The other choices are not suitable. In a voluntary accumulation plan, the load is level. In an automatic withdrawal plan, the load is front -end because the bulk of the sales charge is taken early in the life of the plan.

QUESTION NO: 396

Bubba buys one XYZ September 50 call at \$7 and sells one XYZ September 60 call at \$3. At that time, XYZ stock is at \$55. Bubba has no other stock positions.

What is Bubba's maximum possible profit?

A. \$500

B. \$600

C. \$1,000

D. unlimited

Answer: B

Explanation:

\$600. The maximum profit is the difference between strike prices less the debit amount. The debit amount is \$4 (\$7 - \$3). The difference between strike prices is \$10 (\$60 - \$50). Multiply the \$6 difference by 100, which is the number of shares on one option.

QUESTION NO: 397

Which of the following is associated with an income oil and gas partnership?

A. capital appreciation

B. the risk of dry holes

C. high intangible drilling costs

D. cash flow and depletion allowance

Answer: D

Explanation:

cash flow and depletion allowance. The other choices are not applicable because an "income" partnership already has a producing well.

QUESTION NO: 398

Which of the following does not affect the public offering price of a new issue?

A. anticipated earnings of the issuer in the next year

B. dividend projections for the next year

C. the book value of the issuer

D. the selling group's determination of value in the prevailing market conditions

Answer: D

Explanation:

the selling group's determination of value in the prevailing market conditions. The offering price is determined by factors related to the issuer.

QUESTION NO: 399

The Bubba Corporation is offering stock to the public for the first time. The registration statement lists 150,000 shares for sale at \$400 per share. The company conducts business in a 100-mile radius that includes towns in two neighboring states.

Which of the following information is not required in the preliminary prospectus for this offering?

- A. a notice in red ink to the effect that the prospectus has not been approved by the SEC
- B. a section describing how the funds from the sale will be used
- C. a statement of the company's assets and liabilities
- D. the price at which the issue is offered

Answer: D

Explanation:

the price at which the issue is offered. The offering price is usually determined on the offering date and does not normally appear in the preliminary prospectus.

QUESTION NO: 400

Customers who engage in increased activity of wiring money from their account could indicate which of the following activities?

- A. Interpositioning
- B. Churning
- C. Crossing
- D. Money laundering

Answer: D

Explanation:

money laundering. Potential money laundering activities include excessive wiring of money between accounts.

QUESTION NO: 401

If a mutual fund has invested its assets by allocating about one-third each for bonds, preferred stocks, and common stocks, it is identified as:

- A. an income fund
- B. a specialized fund
- C. a balanced fund
- D. a unit investment trust fund

Answer: C

Explanation:

a balanced fund. A balanced fund varies its investments among these categories of holdings.

QUESTION NO: 402

Bubba owns a subordinated debenture in a company that is liquidating.

When will he get paid?

- A. after the company pays its outstanding bills, but before paying bank loans
- B. after the bills are paid and the bank is paid, but before the preferred shareholders
- C. before the holders of secured debt
- D. after the shareholders of preferred stock

Answer: B

Explanation:

after the bills are paid and the bank is paid, but before the preferred shareholders. As a creditor, Bubba is paid before any of the shareholders. But his position is subordinated to other creditors, like the bank and accounts payable.

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