

Finance

Series-7

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Question: 1

All of the following are corporate money market instruments except:

- A. Federal funds
- B. Commercial paper
- C. Treasury bills
- D. Negotiable certificates of deposit

Answer: C

Explanation:

Treasury bills are government money market instruments, not corporate money market instruments.

Question: 2

If a customer is opening an account for a child where there is one custodian and one minor child listed on the account her or she is most likely opening:

- A. neither a UGMA nor UTMA
- B. a UTMA
- C. both a UGMA and UTMA
- D. a UGMA

Answer: C

Explanation:

Both UGMA and UTMA require that there be only one custodian and one child per account. UGMAs and UTMA differ in the timing when the assets are transferred to the control of the minor who has now become an adult.

Question: 3

The formula for computing current yield on a municipal dollar bond is:

- A. Annual interest payment / Current market price
- B. Quarterly interest payment / Current market price
- C. Annual dividend payment / Current market price
- D. Monthly dividend payment / Current market price

Answer: A

Explanation:

The current yield on a municipal bond is found by dividing the annual interest by the current price of the bond.

Question: 4

Which of the following does not price on the basis of par value alone?

- A. Treasury bonds
- B. Corporate bonds
- C. Treasury notes
- D. Treasury bills

Answer: D

Explanation:

Treasury bills do not pay semi-annual interest and are issued at a discount from par. Treasury bills are priced on a discounted yield basis.

Question: 5

Closing transaction for options writers are taxed as:

- A. Long-term capital gains or losses.
- B. None of the choices listed.
- C. Short-term capital gains or losses.
- D. Ordinary income or loss.

Answer: C

Explanation:

Closing transactions for option writers are treated as short term capital gains or losses.

Question: 6

A registered representative may accept orders for a client's account from:

- I. Client
- II. Spouse

- III. Attorney
- IV. A beneficiary named on a TOD account

- A. I, II, III, IV
- B. I only
- C. I, II, and III
- D. I and II

Answer: B

Explanation:

A registered representative may only accept orders from the client. The beneficiary on the TOD is not an account owner and may not enter orders. Any third party must have written authority to enter orders for the client.

Question: 7

It may be necessary for a company to repurchase some of its stock, to increase its treasury stock, for which of the following reasons:

- A. To allow the company to receive dividends
- B. To maintain control of the company
- C. To reassure its investors that all is well
- D. To increase the funding in the company's treasury

Answer: B

Explanation:

In addition to maintaining control, a company may want to increase its earnings per share, fund employee stock option plans, or use shares to pay for a merger or acquisition.

Question: 8

Which of the following would best describe the odd-lot theory?

- A. Adopting a bearish attitude when the small investor is bullish and bullish when the small investor is bearish.
- B. Buying when the market is in a long-term downtrend.
- C. Buying when the market is in a long-term uptrend.
- D. Periodic investment of a fixed dollar amount.

Answer: A

Explanation:

The odd lot theory believes that the smaller investor buys and sells at the wrong time. If there are a lot of odd lot buy orders the investor would become bearish. If there are a lot of odd lot sell orders the investor would become bullish.

Question: 9

All of the following are rights of common stockholders except?

- A. Right to elect the board of directors
- B. Right to vote for executive compensation
- C. Right to vote for a stock split
- D. Right to maintain their percentage of ownership in the company

Answer: B

Explanation:

A stockholder does not get to vote directly for executive compensation.

Question: 10

A bank with a short fall meeting their reserve requirement could borrow money from another bank and pay the:

- A. Discount Rate
- B. Federal funds rate
- C. Prime rate.
- D. Broker call loan rate

Answer: B

Explanation:

A bank may borrow money from another bank to meet their reserve requirement and it will pay the other bank the federal funds rate.

Question: 11

Which of the following refer to the types of ownership in a customer account?

- I Joint
- II Individual
- III Margin
- IV Trust

- A. III, IV
- B. I, II, III, IV
- C. I, II, IV
- D. I, II

Answer: C

Explanation:

When a customer opens an account at a broker dealer ownership can be individual, joint, corporate, trust or partnership. Margin refers to a type of account (i.e. cash or margin account) not a type of ownership.

Question: 12

A British pound 155 call covering 12,500 pounds has a current premium of 2.50 and the British pound is currently quoted at 149.27. How much would a person wishing to purchase the option pay?

- A. \$3,125.00
- B. \$149.27
- C. \$31.25
- D. \$312.50

Answer: D

Explanation:

To determine the premium take the quote of 2.50 and move the decimal two places to the left .025 and multiply it by the amount of currency covered by the contract = $.025 \times 12,500 = \$312.50$.

Question: 13

The city of Phoenix, Arizona has published an advertisement stating that it is willing to accept bids for the sale of \$20,000,000 of sewer bonds. Where would an underwriter look to find this information?

- A. In the prospectus.
- B. In the Phoenix Sun-Times.
- C. In the Wall Street Journal.
- D. In the Daily Bond Buyer.

Answer: D

Explanation:

The official notice of sale is printed in the Daily Bond Buyer.

Question: 14

Economics involves all of the following except:

- A. As supply rises, prices tend to rise
- B. As supply rises, price tends to fall
- C. As demand rises, price tends to rise
- D. The study of supply and demand

Answer: A

Explanation:

The main theory of economics is one of supply and demand; if the supply outpaces the demand, the price of the goods will fall.

Question: 15

What is a short XYZ call at \$50, together with a short XYZ put at \$50, known as?

- A. Long combination.
- B. Short combination
- C. Long straddle
- D. Short straddle

Answer: D

Explanation:

The investor is short a call and a put with the same strike price. This is a short straddle.

Question: 16

Preferred stock pays dividends:

- A. Quarterly
- B. As stated on the preferred stock certificate
- C. Annually
- D. Semi-annually

Answer: A

Explanation:

Preferred stock pays dividends quarterly.

Question: 17

All but which of the following if established would involve a fiduciary?

- A. Trust account
- B. Guardian account
- C. Estate account
- D. Transfer on Death account

Answer: D

Explanation:

The transfer on Death or TOD account designation on an account simply states who the assets are to go to in the event of the account holder's death. This does not involve or create a fiduciary relationship.

Question: 18

A municipality after years of financial difficulty defaults on an outstanding issue of GO bonds. The bond issue was rather small and had no legal opinion issued. In order for the bonds to be considered good delivery, which of the following are true?

- I. The bonds must be accompanied by an official default notice
- II. All past unpaid coupons must be attached
- III. All coupons for future payment must be attached
- IV. The bonds must be accompanied by an escrow receipt

- A. I, II, III, IV
- B. II and III
- C. II, III and IV
- D. I and IV

Answer: B

Explanation:

In order for a bond in default to be considered to be in good deliverable form all unpaid past coupons and all coupons for future payment must be attached. The bonds do not need to be accompanied by an official default notice or an escrow receipt.

Question: 19

You bought:

10 XYZ April 75 calls at 3.40
10 XYZ April 75 puts at 4.10

Your maximum gain is:

- A. \$67,500
- B. \$7,500
- C. Unlimited
- D. \$82,500.00

Answer: C

Explanation:

With a long straddle the maximum gain is unlimited because the investor owns the calls.

Question: 20

The nominal owner of a UGMA account is the:

- A. Custodian
- B. Parent
- C. Minor
- D. Trustee

Answer: A

Explanation:

The nominal owner of a UGMA account is the custodian. The beneficial owner is the minor.

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