

100% Money Back
Guarantee

Vendor:FINRA

Exam Code:FINRA-SERIES-7

Exam Name:FINRA General Securities
Representative Examination (GS)

Version:Demo

QUESTION 1

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

Correct Answer: A

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 2

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

Correct Answer: A

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

QUESTION 3

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

Correct Answer: A

authorized for inclusion in the NASDAQ system. Stocks listed on an exchange have no more than three characters in their symbols.

QUESTION 4

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

Correct Answer: C

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 5

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

Correct Answer: D

\$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 6

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

Correct Answer: C

underpriced and should rise quickly. The parity price for the common stock is about \$49.38 - determined as: $50 / 47.50 =$

$1.05352 / 1.053 = 49.38$ Since the common stock is trading at 51, the preferred is underpriced.

QUESTION 7

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

Correct Answer: D

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 8

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

Correct Answer: B

the \$600 premium is capital gain. That's simply how the tax law works.

QUESTION 9

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

Correct Answer: D

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 10

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

Correct Answer: D

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 11

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

Correct Answer: A

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 12

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

Correct Answer: D

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.