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QUESTION 1

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

Correct Answer: A

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

QUESTION 2

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

Correct Answer: B

\$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 3

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

Correct Answer: C

a \$1,000 gain. There is a \$1,000 gain on the stock. The option is a separate capital asset.

QUESTION 4

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

Correct Answer: A

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 5

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

Correct Answer: D

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

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