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QUESTION 1

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

Correct Answer: A

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

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

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

Correct Answer: C

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 4

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

Correct Answer: A

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 5

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

Correct Answer: D

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

QUESTION 6

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

Correct Answer: C

provide for disclosure of information about new securities offerings. The 1933 act is primarily concerned with registration

and disclosures relating to new securities.

QUESTION 7

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

Correct Answer: D

\$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 8

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

Correct Answer: A

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

QUESTION 9

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

Correct Answer: B

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 10

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

Correct Answer: D

money laundering. Potential money laundering activities include excessive wiring of money between accounts.

QUESTION 11

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

Correct Answer: B

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

QUESTION 12

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

Correct Answer: C

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

QUESTION 13

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

Correct Answer: B

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 14

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

Correct Answer: B

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

QUESTION 15

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

Correct Answer: C

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

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