

# FINRA-SERIES-7<sup>Q&As</sup>

FINRA General Securities Representative Examination (GS)

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## QUESTION 1

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

Correct Answer: A

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

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## QUESTION 2

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

Correct Answer: D

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.

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## QUESTION 3

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

Correct Answer: A

\$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.

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#### QUESTION 4

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

Correct Answer: A

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

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#### QUESTION 5

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

Correct Answer: D

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.

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#### QUESTION 6

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

Correct Answer: A

without restriction. A SEP-IRA may be converted to a Roth IRA. The two-year holding period applies to SIMPLE-IRAs.

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## QUESTION 7

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

Correct Answer: D

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.

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## QUESTION 8

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

Correct Answer: A

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

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## QUESTION 9

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

Correct Answer: C

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

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**QUESTION 10**

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

Correct Answer: D

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.

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**QUESTION 11**

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

Correct Answer: D

selling the security he already owns. A "covered" call is written on stock already owned.

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**QUESTION 12**

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

Correct Answer: D

prospectus contains the significant facts about the issue. The SEC never approves or guarantees an issue. It only attempts to verify that sufficient information is disclosed in the prospectus.

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### QUESTION 13

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

Correct Answer: A

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

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### QUESTION 14

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

Correct Answer: C

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.

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### QUESTION 15

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

Correct Answer: B

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.

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