

# 1001 Practice Questions

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for  
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**Steven M. Rice**  
SIE Exam Tutor







# 1001

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by Steven M. Rice

## SIE® Exam: 1001 Practice Questions For Dummies®

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# Introduction

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**T**his book is designed for people like you who are getting prepared to tackle the Securities Industry Essentials (SIE) Exam. Although the Securities Industry Essentials Exam is not as difficult as some of the other securities exams, it'll be rough if you don't prepare adequately. It is not enough for you to have a good grasp on the material covered on the SIE; you also need to have completed enough practice questions to go in to take the *real deal* with confidence.

No doubt tackling test questions is a skill. I have tutored many students who could just about recite an SIE, Series 65, or Series 7 book, but when it came down to answering questions, they were lost. The only way to get better is to answer a lot of questions. You need to learn how to break questions down, focus on the last sentence in the question, and eliminate wrong answers.

Although the book is broken down into chapters and sections, you can jump around the book to whatever topic you need help with. Even though the book is broken down into logical chapters, when you take the real SIE Exam, the questions are not going to be in chapter order; they will be jumbled. If you would like to get somewhat of a feel for the real exam, you may want to randomly grab 75 questions encompassing all of the different chapters and subchapters. Maybe you can even answer every 13th question or so, starting with number 1 the first time, 2 the second time, and so on.

This is your book, so feel free to either take a question and go look at the answer and explanation or complete a section before looking at the answers and explanations. Either way you do it, make sure that you give your best effort in answering each question before looking at the answer. Also, keep your eyes from wandering to the answers and explanations for questions you haven't completed yet.

Work hard and give yourself the best opportunity to pass the Securities Industry Essentials Exam on the first (or next) attempt.

## What You'll Find

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The 1,001 Securities Industry Essentials Exam practice problems in the book are divided into 12 chapters with several subsections. Each chapter provides an abundance of question types you are likely to face when taking the real exam. As on the real exam, some questions will take you a few seconds to answer, and some will take you a couple of minutes. Remember, the real exam weights the questions, so the more difficult ones are worth more, and the easier ones are worth less.

The last chapter of the book provides the answers and detailed explanations to all the problems. If you get an answer wrong, give it a second attempt before reading the explanation. Eliminating answers that you know are wrong will have a big impact on your score as compared to just “C”ing your way through (just choosing the answer “C” for every answer you’re not sure of).

## Beyond the Book

This product also comes with an online Cheat Sheet that helps you increase your odds of performing well. Go to [www.dummies.com](http://www.dummies.com) and type “SIE Exam: 1001 Practice Questions For Dummies cheat sheet” in the search box. Here, you’ll find articles that will help you prepare for the SIE.

## Where to Go for Additional Help

I wouldn’t say that any part of the Securities Industry Essentials is overly difficult, but the exam itself is tough. The problem is that there is soooo much to remember. Remembering everything and not confusing rules and numbers makes it a little tougher than exams you faced when you were in high school.

In addition to getting help from people who have recently passed the Securities Industry Essentials Exam, securities teachers (like me), or tutors (like me), you can find a variety of questions and study materials online. A simple online search often turns up heaps of information. You can also head to [www.dummies.com](http://www.dummies.com) to see the many articles and books that can help you in your studies.

This book gives you 1,001 practice questions and answers in order for you to prepare yourself for the SIE Exam. If you need more in-depth study and direction, check out the latest edition of *Securities Industry Essentials Exam For Dummies*, which I also wrote. Here, you’ll find in-depth coverage of all the topics and concepts presented in the SIE Exam along with full-length practice exams.

1

# Tackling the Questions

## IN THIS PART . . .

Underwriting securities (Chapter 1)

Equity securities (Chapter 2)

Corporate and U.S. government debt securities  
(Chapter 3)

Municipal bonds (Chapter 4)

Packaged securities (Chapter 5)

DPPs and REITs (Chapter 6)

Options (Chapter 7)

Customer accounts (Chapter 8)

Securities analysis (Chapter 9)

Orders and trades (Chapter 10)

Taxes and retirement plans (Chapter 11)

Rules and regulations (Chapter 12)

## Chapter 1

# Securities Underwriting: The Process and the Team Players

A good place to start is at the beginning. Prior to corporations “going public,” they must register and have a way of distributing their securities. The Series 7 exam tests your ability to understand the registration process, the entities involved in bringing new issues to market, and the types of offerings. In addition, you’re expected to know which securities are exempt from Securities and Exchange Commission (SEC) registration.

## The Problems You’ll Work On

As you work through this chapter, be sure you can recognize, understand, and, in some cases, calculate the following:

- » The process involved with bringing new issues to market
- » The different types of offerings
- » Exempt securities and transactions

## What to Watch Out For

Read the questions and answer choices carefully and make sure that you

- » Watch out for words that can change the answer you’re looking for, such as EXCEPT, NOT, ALWAYS, and so on.
- » Recognize that there’s a difference between *exempt securities* and *exempt transactions*.
- » If you’re not certain of the correct answer, try to eliminate any answers that you can. Doing so may make the difference between passing and failing.

# 1-35 Bringing New Issues to Market

1. Which of the following securities acts covers the registration and disclosure requirements of new issues?
  - (A) The Securities Act of 1933
  - (B) The Securities Exchange Act of 1934
  - (C) The Trust Indenture Act of 1939
  - (D) All of the above
2. The Securities Act of 1933 was enacted to
  - (A) require full and fair disclosure regarding sales of new securities to the public
  - (B) regulate the exchanges and the over-the-counter market in trades of outstanding securities
  - (C) require broker-dealers and registered reps to be licensed
  - (D) all of the above
3. The federal security law that provides rules for securities traded in the secondary market is
  - (A) the Trust Indenture Act of 1939
  - (B) the Securities Exchange Act of 1934
  - (C) the Securities Act of 1933
  - (D) FDIC
4. The Securities Exchange Act of 1934 created rules regarding all of the following EXCEPT
  - (A) the extension of credit in margin accounts
  - (B) transactions by insiders
  - (C) the registration of securities
  - (D) the handling of customer accounts
5. Which of the following securities is exempt from the Trust Indenture Act of 1939?
  - I. T-bonds
  - II. GO bonds
  - III. Equipment trust bonds
  - IV. Revenue bonds
  - (A) I only
  - (B) II and III
  - (C) I, II, and IV
  - (D) I, III, and IV
6. The Trust Indenture Act of 1939 regulates all of the following EXCEPT
  - (A) debentures
  - (B) collateral trusts
  - (C) mortgage bonds
  - (D) Treasury bonds
7. Which of the following information must be included in the registration statement to the SEC when registering new securities?
  - I. the issuer's name and description of its business
  - II. what the proceeds of sale will be used for
  - III. financial statements
  - IV. the company's capitalization
  - (A) I and III
  - (B) I, II, and III
  - (C) I, III, and IV
  - (D) I, II, III, and IV
8. What is the underwriting arrangement that allows an issuer whose stock is already trading publicly to time the sales of an additional issue?
  - (A) shelf registration
  - (B) a standby underwriting
  - (C) a negotiated offering
  - (D) an Eastern account underwriting

9. SEC Rule 415 outlines rules for
- (A) primary offerings
  - (B) shelf offerings
  - (C) secondary offerings
  - (D) IPOs
10. KO Corp., a new company, has held back some of its shares for later use. According to shelf distribution rules, KO can sell the shares over the course of the next \_\_\_\_\_ without having to reregister the shares.
- (A) 180 days
  - (B) 270 days
  - (C) 1 year
  - (D) 3 years
11. The cooling-off period for a new issue lasts approximately how many days?
- (A) 20
  - (B) 30
  - (C) 40
  - (D) 60
12. Under the Securities Act of 1933, the SEC has the authority to
- I. approve new issues of common stock
  - II. issue stop orders
  - III. review registration statements
- (A) I and II
  - (B) II and III
  - (C) I and III
  - (D) all of the above
13. Zamzow, Inc., has filed a registration statement and is currently in the cooling-off period. Zowie Broker-Dealer is the lead underwriter for Zamzow and is in the process of taking indications of interest. Which TWO of the following are TRUE regarding indications of interest?
- I. They are binding on Zowie.
  - II. They are binding on customers.
  - III. They are not binding on Zowie.
  - IV. They are not binding on customers.
- (A) I and II
  - (B) III and IV
  - (C) I and IV
  - (D) II and III
14. A corporation in the process of issuing stock has not filed a registration statement with the SEC. An account executive may do which of the following relating to the new issue?
- (A) Accept money from customers.
  - (B) Obtain indications of interest.
  - (C) Guarantee to customers that they will be able to purchase 1,000 shares of the new issue.
  - (D) Nothing.
15. A tombstone ad would include all of the following names EXCEPT
- (A) selling group members
  - (B) syndicate members
  - (C) the syndicate manager
  - (D) the issuer

- 16.** Which of the following are types of state securities registration?
- I. filing
  - II. communication
  - III. qualification
  - IV. coordination
- (A) I, III, and IV  
(B) II, III, and IV  
(C) I, II, and III  
(D) I, II, III, and IV
- 17.** This type of state registration is used for securities that are exempt from SEC registration but require state registration.
- (A) Filing  
(B) Coordination  
(C) Qualification  
(D) Notification
- 18.** This type of state registration is used for established companies that have previously sold securities within the state.
- (A) Notification  
(B) Coordination  
(C) Qualification  
(D) (A) or (B)
- 19.** This type of state registration is used for corporations who wish to register their securities with the SEC and states at the same time.
- (A) Filing  
(B) Coordination  
(C) Qualification  
(D) Notification
- 20.** The main function of an investment banker is to
- (A) advise an issuer on how to raise capital  
(B) raise capital for issuers by selling securities  
(C) help issuers comply with the laws of the Securities Act of 1933  
(D) all of the above
- 21.** A group organized to underwrite municipal or corporate securities is called
- (A) a market maker  
(B) a dealer's group  
(C) a syndicate  
(D) a posse
- 22.** All of the following would be found in a final prospectus EXCEPT
- (A) the issuer's business plan and what they intend to do with the proceeds of sale  
(B) the underwriter's agreement  
(C) the effective date  
(D) the offering price
- 23.** Which of the following types of underwriting agreements specify that any unsold securities are retained by the underwriters?
- (A) mini-max  
(B) firm commitment  
(C) all-or-none (AON)  
(D) best efforts
- 24.** Which of the following documents details the liabilities and responsibilities of each firm involved in the distribution of new securities?
- (A) the registration statement  
(B) the letter of intent  
(C) the agreement among underwriters  
(D) the code of procedure
- 25.** Which of the following is NOT a type of bond underwriting?
- (A) Mini-max  
(B) Best efforts  
(C) Standby  
(D) AON



- 26.** Silversmith Securities is the lead underwriter for 2 million shares of HIJ common stock. Silversmith has entered into an agreement with HIJ to sell as many shares of their common stock as possible, but HIJ will cancel the offering if the entire 2 million shares are not sold. What type of offering is this?
- (A) Firm commitment
  - (B) All-or-none
  - (C) Mini-max
  - (D) Best efforts
- 27.** In this type of securities underwriting a certain minimum dollar amount of securities must be sold for the offering not to be cancelled.
- (A) Firm commitment
  - (B) Mini-max
  - (C) All or none
  - (D) None of the above
- 28.** A registered rep may use a preliminary prospectus to
- (A) solicit orders from clients to purchase a new issue
  - (B) show prospective investors that the issue has been approved by the SEC
  - (C) obtain indications of interest from investors
  - (D) accept orders and payments from investors for a new issue
- 29.** Who is responsible to make sure the information placed in a prospectus is accurate?
- (A) The managing underwriter
  - (B) The selling group
  - (C) The SEC
  - (D) FINRA
- 30.** All of the following are included in the preliminary prospectus EXCEPT
- I. the public offering price
  - II. the financial history of the issuer
  - III. the effective date
- (A) I only
  - (B) I and II
  - (C) II and III
  - (D) I and III
- 31.** A red herring is also known as a
- (A) tombstone advertisement
  - (B) final prospectus
  - (C) preliminary prospectus
  - (D) stop order
- 32.** A preliminary prospectus
- (A) may be used to help obtain indications of interest
  - (B) may not be sent to potential investors during the cooling-off period
  - (C) is also known as the pink sheets
  - (D) includes the final offering price
- 33.** Which of the following is included in a preliminary prospectus?
- I. The purpose of the funds being raised by the offering
  - II. Financial statements
  - III. A written statement in red citing that the prospectus may be amended and a final prospectus issued
  - IV. The final offering price
- (A) I and II
  - (B) I, II, and III
  - (C) II and IV
  - (D) I, II, III, and IV

- 34.** Which of the following is TRUE?
- I. The registrar is responsible for making sure that a corporation's outstanding shares do not exceed the quantity of authorized shares.
  - II. The transfer agent is responsible for making sure that a corporation's outstanding shares do not exceed the quantity of authorized shares.
  - III. The registrar maintains records of a corporation's stock and bond owners plus mails and cancels old certificates as necessary.
  - IV. The transfer agent maintains records of a corporation's stock and bond owners plus mails and cancels old certificates as necessary.
- (A) I and III  
(B) I and IV  
(C) II and III  
(D) II and IV
- 35.** Which of the following is a function of a transfer agent?
- (A) Underwriting shares in new corporate stock offerings  
(B) Preparing corporate balance sheets  
(C) Advising municipalities regarding the debt structure of new issues  
(D) Sending out proxies

## 36–43 Types of Securities Offerings

- 36.** The first time a corporation ever issues securities to the public is called a(n)
- (A) IPO  
(B) first-market trade  
(C) rights offering  
(D) none of the above

- 37.** HIJ Corporation is issuing common stock through an IPO that will trade on the OTCBB when it is first issued. Broker-dealers who execute orders for clients in HIJ common stock must have a copy of a final prospectus available for how long?
- (A) 25 days after the effective date  
(B) 30 days after the effective date  
(C) 40 days after the effective date  
(D) 90 days after the effective date
- 38.** Pluto Broker-Dealer is offering an IPO that will not be listed on the NYSE, NASDAQ, or any other exchange. How long after the effective date must Pluto provide a final prospectus to all purchasers?
- (A) 20 days  
(B) 30 days  
(C) 40 days  
(D) 90 days
- 39.** A corporation is offering 1 million shares of its common stock to the public. Of those shares, 600,000 are authorized but previously unissued, while insiders of the company are selling the other 400,000 shares. What type of offering is this?
- (A) IPO  
(B) Primary  
(C) Secondary  
(D) Combined
- 40.** WXY Corporation is offering a large block of treasury stock. What type of offering is this?
- (A) IPO  
(B) Primary  
(C) Secondary  
(D) Split
- 41.** The first time a corporation issues stock is called a(n)
- (A) primary offering  
(B) secondary offering  
(C) split offering  
(D) initial public offering

42. Another name for a combined offering is a \_\_\_\_\_ offering.
- (A) split
  - (B) dual
  - (C) secondary
  - (D) coupled
43. A primary offering would do which of the following?
- I. Increase the number of shares outstanding.
  - II. Decrease the number of shares outstanding.
  - III. Raise additional capital for the issuer.
  - IV. Include selling treasury stock.
- (A) I, III, and IV
  - (B) II, III, and IV
  - (C) I and IV
  - (D) I and III

## 44–61 Exempt Securities and Transactions

44. All of the following are exempt securities under the Securities Act of 1933 EXCEPT
- (A) Treasury bonds
  - (B) municipal general obligation bonds
  - (C) REITs
  - (D) public utility stocks
45. Which of the following securities is exempt from SEC registration?
- (A) Corporate term bonds
  - (B) Warrants
  - (C) General obligation bonds
  - (D) None of the above

46. Which TWO of the following are nonexempt securities under the Securities Act of 1933?
- I. Variable annuities
  - II. Fixed annuities
  - III. Non-negotiable CDs
  - IV. Oil and gas limited partnerships
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
47. Which of the following securities are exempt from SEC registration?
- I. Revenue bonds
  - II. Treasury bonds
  - III. Variable annuities
  - IV. Securities issued by not-for-profit organizations
- (A) I, II, and IV
  - (B) II, III, and IV
  - (C) II and IV
  - (D) I, II, III, and IV
48. Under the Securities Act of 1933, all of the following securities must be offered by a prospectus EXCEPT
- (A) variable annuities
  - (B) mutual funds
  - (C) UITs
  - (D) TIPS
49. Which of the following securities are exempt from the full registration requirements of the Securities Act of 1933?
- (A) Corporate convertible bonds
  - (B) Closed-end funds
  - (C) Real estate limited partnerships
  - (D) Commercial paper

- 50.** Which of the following are exempt transactions?
- I. Private placements
  - II. Securities issued by the U.S. government
  - III. Municipal bonds
  - IV. Intrastate offerings
- (A) II and III
  - (B) II, III, and IV
  - (C) I and IV
  - (D) I, II, III, and IV
- 51.** A Rule 147 offering is
- (A) an offering of securities only within the issuer's home state
  - (B) an offering of securities worth no more than \$75 million within a one-year period
  - (C) an offering of securities to no more than 35 unaccredited investors within a one-year period
  - (D) also known as an interstate offering
- 52.** A Regulation D offering is
- (A) an offering of securities only within the issuer's home state
  - (B) an offering of securities worth no more than \$75 million within a one-year period
  - (C) an offering of securities to no more than 35 unaccredited investors within a one-year period
  - (D) also known as an interstate offering
- 53.** Which of the following is not an offering that is exempt from the full registration requirements of the Securities Act of 1933?
- (A) Regulation D
  - (B) Regulation A+
  - (C) Regulation T
  - (D) Rule 147
- 54.** All of the following would be considered accredited investors EXCEPT
- (A) financial institutions
  - (B) joint investors with a combined income of at least \$200,000 for the current year and previous two years
  - (C) corporations with a net worth of at least \$5 million
  - (D) investors with a net worth of at least \$1 million excluding primary residence
- 55.** Which of the following is TRUE of Regulation A+ Tier 2 offerings?
- (A) They are limited to 35 unaccredited investors each year.
  - (B) They are issued without using a prospectus.
  - (C) They are limited to raising up to \$20 million per year.
  - (D) They are also known as private placements.
- 56.** Which of the following is true?
- (A) Public securities offerings are typically exempt from SEC registration.
  - (B) All securities offerings are exempt from SEC registration.
  - (C) No securities offerings are exempt from SEC registration.
  - (D) Private securities offerings are typically exempt from SEC registration.
- 57.** Which of the following are considered accredited investors?
- (A) Financial institutions
  - (B) Investors with a net worth of \$1 million or more excluding primary residence
  - (C) Rural business investment companies
  - (D) All of the above

- 58.** Under Rule 144, what percentage of outstanding shares may a control person sell every 90 days?
- (A) 1%
  - (B) The average weekly trading volume for the previous 4 weeks
  - (C) Either (A) or (B)
  - (D) Neither (A) nor (B)
- 59.** SEC Rule 144 regulates
- (A) the sale of control stock
  - (B) the sale of new securities
  - (C) the sale of equity securities worth \$75 million or less in a one-year period
  - (D) the conversion of convertible preferred stock into common stock
- 60.** Sig Hillstrand has held shares of Greenhorn restricted stock for more than one year. Greenhorn has 4 million shares outstanding. The most recently reported weekly trading volumes for Greenhorn are as follows:

Week Ending	Trading Volume
May 27	35,000
May 20	50,000
May 13	40,000
May 6	45,000
Apr 29	50,000

What is the maximum number of shares that Sig can sell under Rule 144?

- (A) 35,000
- (B) 46,250
- (C) 44,000
- (D) 42,500

- 61.** Which of the following securities is subject to the anti-fraud provision of the Securities Act of 1933?
- (A) U.S. government securities
  - (B) Common stock issued by any corporation
  - (C) Private placements under Regulation D
  - (D) All of the above



## Chapter 2

# Equity Securities: Corporate Ownership

To be a corporation, you must have stockholders. Both common and preferred stock are considered *equity securities* because they represent ownership of the corporation. A majority of most registered representatives' commission is earned by selling equity securities because, historically, equity securities have outpaced inflation.

Although this isn't the largest section on the Series 7 exam, it does relate to many other chapters, such as packaged securities and options.

## The Problems You'll Work On

In this chapter, you're expected to understand and calculate questions regarding the following:

- » The specifics of common stock
- » The difference between common stock and preferred stock
- » The reason for American depository receipts (ADRs), rights, and warrants

## What to Watch Out For

Read the questions and answer choices carefully, and be sure you

- » Don't assume an answer without reading each question and answer choice completely (twice if necessary).
- » Watch out for key words that can change the answer (EXCEPT, NOT, and so on).
- » Eliminate any incorrect answer choice that you can.
- » Look at questions from the corporation's or the investor's point of view depending on how the question is worded.

## 62–97 Common Stock

- 62.** Which of the following would be owners of a corporation?
- I. Common stockholders
  - II. Debenture holders
  - III. Participation preferred stockholders
  - IV. Equipment trust bondholders
- (A) I and III  
(B) II and IV  
(C) I, III, and IV  
(D) II, III, and IV
- 63.** Equity securities include
- (A) TIPS  
(B) debentures  
(C) preferred shares  
(D) GO bonds
- 64.** Regarding investments, which of the following is true?
- (A) Bonds represent ownership in an issuing corporation.  
(B) Warrants and bonds represent ownership in an issuing corporation.  
(C) Stocks represent ownership in an issuing corporation.  
(D) Warrants represent ownership in an issuing corporation.
- 65.** AylDec Corporation has just decided to go public. AylDec will issue
- (A) preferred stock  
(B) common stock  
(C) term bonds  
(D) warrants
- 66.** Poor Outlook Corporation has just declared bankruptcy. Remaining assets would be distributed in which way (from first to last)?
- (A) IRS, unpaid workers, general creditors, preferred stockholders, secured creditors, subordinated debenture holders, common stockholders  
(B) Common stockholders, general creditors, preferred stockholders, subordinated debenture holders, secured creditors, IRS, unpaid workers  
(C) Unpaid workers, IRS, secured creditors, general creditors, subordinated debenture holders, preferred stockholders, common stockholders  
(D) IRS, unpaid workers, secured creditors, subordinated debenture holders, general creditors, preferred stockholders, common stockholders
- 67.** In the event of corporate bankruptcy, preferred stockholders have priority claim of assets over
- (A) unpaid workers  
(B) debenture holders  
(C) the IRS  
(D) common shareholders
- 68.** Common stockholders have which of the following rights and privileges?
- I. The right to receive monthly audited financial reports
  - II. The right to vote for cash dividends
  - III. The right to vote for stock splits
  - IV. A residual claim to assets at dissolution
- (A) I and II  
(B) III and IV  
(C) I, III, and IV  
(D) II, III, and IV



- 69.** Common stockholders have the right to vote for all of the following EXCEPT
- I. cash dividends
  - II. stock dividends
  - III. stock splits
  - IV. members of the board of directors
- (A) I, II, and III  
(B) III and IV  
(C) I and II  
(D) IV only
- 70.** Which of the following investors would have the right to vote for corporation board of director positions?
- (A) Preferred stockholders  
(B) Commons stockholders  
(C) Bondholders  
(D) Both (A) and (B)
- 71.** ABCD Corporation's common shareholders would have the right to vote for
- I. members of the board of directors (BOD)
  - II. cash dividends
  - III. stock dividends
  - IV. stock splits
- (A) II and III  
(B) I and III  
(C) I and IV  
(D) II and IV
- 72.** An investor who holds common stock has
- I. limited liability
  - II. unlimited liability
  - III. voting rights
  - IV. no voting rights
- (A) I and III  
(B) I and IV  
(C) II and IV  
(D) II and III
- 73.** Cain Weidman owns 1,000 shares of HIT Corp. HIT issues stock with cumulative voting. What is the maximum number of votes that Cain can cast for one candidate if the board of directors of HIT has four vacancies?
- (A) 100  
(B) 250  
(C) 1,000  
(D) 4,000
- 74.** An individual owns 2,000 shares of TUV common stock. TUV has four vacancies on the board of directors. If the voting is cumulative, the investor may vote in any of the following ways EXCEPT
- (A) 4,000 votes for two candidates each  
(B) 5,000 votes for one candidate and 3,000 votes for another candidate  
(C) 3,000 votes each for three candidates  
(D) 2,000 votes for four candidates each
- 75.** This type of voting gives smaller shareholders (in terms of shares) a better chance to gain representation on the board of directors (BOD).
- (A) Statutory  
(B) Cumulative  
(C) Regular  
(D) Break-up
- 76.** As a stockholder, Ayla Rice would really like to attend the vote for board of director members. Unfortunately, her schedule will not allow her to attend in person. Which of the following is true?
- (A) Ayla can vote by proxy.  
(B) Ayla will have to wait until the next vote.  
(C) Ayla can show up to the location to cast her vote in person as long as it's within two weeks of the vote.  
(D) Ayla will lose her right to vote for the next two years.

- 77.** All of the following are possible ways to vote for the board of directors of a corporation EXCEPT
- (A) in person
  - (B) by telephone
  - (C) by mailed proxy
  - (D) by online proxy
- 78.** Which of the following does NOT describe treasury stock?
- (A) Treasury stockholders have no voting rights.
  - (B) It is stock that was previously authorized but still unissued.
  - (C) It is issued stock that has been repurchased by the company.
  - (D) It has no dividends.
- 79.** Treasury stock is
- (A) U.S. government stock
  - (B) local government stock
  - (C) authorized but unissued stock
  - (D) repurchased stock
- 80.** Macrohard Corp. was authorized to issue 2 million shares of common stock. Macrohard issued 1.1 million shares and subsequently repurchased 150,000 shares. How many of Macrohard's shares remain outstanding?
- (A) 150,000
  - (B) 900,000
  - (C) 950,000
  - (D) 1.85 million
- 81.** Which of the following changes the par value of a common stock?
- (A) A cash dividend
  - (B) A stock dividend
  - (C) A stock split
  - (D) All of the above
- 82.** The par value of a common stock is
- I. used for bookkeeping purposes
  - II. one dollar
  - III. adjusted for stock splits
  - IV. the amount investors receive at maturity
- (A) I and III
  - (B) I, II, and III
  - (C) II, III, and IV
  - (D) I, II, III, and IV
- 83.** The amount over par value that an issuer receives when selling stock is called
- (A) a bonus
  - (B) equity surplus
  - (C) surplus over par
  - (D) additional paid in capital
- 84.** Tender offers typically \_\_\_\_\_ the price of the outstanding shares of a corporation.
- (A) increase
  - (B) decrease
  - (C) do not affect
  - (D) cannot be determined
- 85.** Which of the following changes the par value of a stock?
- (A) A rights offering
  - (B) The issuer repurchasing some of its outstanding stock
  - (C) A stock split
  - (D) A cash dividend
- 86.** TUV Corporation declares a 4-for-3 stock split; an investor who owns 600 shares would receive \_\_\_\_\_ additional shares.
- (A) 100
  - (B) 200
  - (C) 400
  - (D) 600

- 87.** Dana Black, an investor, purchased 1,000 shares of ABC at \$40. If ABC announces a 5-for-4 split, what is Dana's position after the split?
- (A) 800 ABC at \$50
  - (B) 1,250 ABC at \$32
  - (C) 1,250 ABC at \$50
  - (D) 800 ABC at \$32
- 88.** An investor owns 100 shares of DEF common stock at the current market price of \$40 per share. If DEF conducts a 1-for-2 reverse split, what would be the investor's position after the split?
- (A) 50 shares at \$20 per share
  - (B) 50 shares at \$80 per share
  - (C) 200 shares at \$20 per share
  - (D) 200 shares at \$80 per share
- 89.** Declan K. owns 2,500 shares of common stock of AylDec Corporation. Which of the following actions would dilute Declan's equity?
- I. A primary share offering (registered)
  - II. A stock split
  - III. Payment of a stock dividend
  - IV. A secondary share offering (registered)
- (A) I only
  - (B) II only
  - (C) I, II, and IV
  - (D) I, II, III, and IV
- 90.** Which of the following is true regarding cash dividends?
- I. They are decided by a shareholder vote.
  - II. They are decided by the board of directors.
  - III. They are guaranteed.
  - IV. They are not guaranteed.
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
- 91.** TUVW Corp. declared a \$0.40 dividend to their shareholders of record. Future dividend payments
- (A) are not guaranteed
  - (B) are guaranteed to be paid although the amount needs to be decided
  - (C) will be \$0.40 per share
  - (D) are guaranteed to be at least \$0.40 per share
- 92.** A listed stock closed at \$24.95 on the business day prior to the ex-dividend date. If the company previously announced a \$0.30 dividend, what will be the opening price on the next business day?
- (A) \$24.35
  - (B) \$24.65
  - (C) \$24.95
  - (D) \$25.25
- 93.** ABCDEF Corporation will be paying a cash dividend to its common stockholders. On what date will the market price of ABCDEF be reduced to reflect the dividend?
- (A) The declaration date
  - (B) The ex-date
  - (C) The record date
  - (D) The payment date
- 94.** The ex-dividend date as related to cash dividends is
- I. the date that the stock price is reduced by the dividend amount
  - II. the date that the stock price is increased by the dividend amount
  - III. one business day before the record date
  - IV. one business day after the trade date
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV

- 95.** What is the main reason a corporation would split its stock?
- (A) To bring in additional funds
  - (B) To increase the overall market value of its stock
  - (C) To decrease the amount of dividend paid per share
  - (D) To increase the demand for its stock
- 96.** One of your customers owns 1,000 shares of DIM common stock at \$24. DIM declares a 20% stock dividend. On the ex-dividend date, your customer will own
- I. 1,000 shares
  - II. 1,200 shares
  - III. stock at \$20 per share
  - IV. stock at \$24 per share
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
- 97.** EYEBM Corp. shares are trading at \$55 per share when it declares a 5% stock dividend. After EYEBM pays the dividend, one of your clients who owned 500 shares now owns
- (A) 500 shares valued at \$57.73 per share
  - (B) 525 shares valued at \$55.00 per share
  - (C) 550 shares valued at \$55.00 per share
  - (D) 525 shares valued at \$52.38 per share

## 98–125 Preferred Stock

- 98.** Which of the following are advantages of holding straight preferred stock over common stock?
- I. A fixed dividend
  - II. More voting power
  - III. Preference in the event of issuer bankruptcy
  - IV. The ability to receive par value at maturity
- (A) I and II
  - (B) II and IV
  - (C) I and III
  - (D) I, III, and IV
- 99.** Preferred stock has
- I. characteristics of debt securities
  - II. no characteristics of debt securities
  - III. characteristics of common stock
  - IV. no characteristics of common stock
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
- 100.** Preferred dividends may be paid in the form of
- I. cash
  - II. stock
  - III. product
- (A) I only
  - (B) I and II
  - (C) I and III
  - (D) I, II, and III
- 101.** As interest rates rise, prices of outstanding preferred stock will likely
- (A) fall
  - (B) rise
  - (C) fluctuate
  - (D) remain stable

- 102.** Which TWO of the following are TRUE of preferred stock?
- I. Holders have voting rights.
  - II. Holders do not have voting rights.
  - III. In the event of corporate bankruptcy, preferred stock is senior to common stock.
  - IV. In the event of corporate bankruptcy, preferred stock is junior to common stock.
- (A) I and III  
(B) I and IV  
(C) II and III  
(D) II and IV
- 103.** Which of the following is true of a preferred stock dividend?
- (A) It is variable and based on the consumer price index (CPI).  
(B) It is fixed and based on the par value.  
(C) It is variable based on the current market value.  
(D) It is fixed and based on the current market value.
- 104.** Preferred stockholders have
- (A) preemptive rights  
(B) voting rights  
(C) both (A) and (B)  
(D) neither (A) nor (B)
- 105.** A preferred stock dividend is based on a percentage of
- (A) its market price  
(B) its par value  
(C) the Consumer Price Index  
(D) the current T-bill rate
- 106.** Which two of the following are true of straight preferred shares?
- I. They are cumulative.
  - II. They are non-cumulative.
  - III. They have no provision for missed dividends to be paid at a later date.
  - IV. They provide for any missed dividends to be paid at a later date.
- (A) I and III  
(B) I and IV  
(C) II and III  
(D) II and IV
- 107.** LMNOP Corporation has past due dividends on their cumulative preferred stock. Which of the following is true?
- (A) LMNOP can choose to resume current dividends when they are able and write off the past due dividends.  
(B) Common stockholders must continue to receive dividends even though the dividends on their cumulative preferred stock are in arrears.  
(C) They continue to accumulate on the company's books until they can be paid.  
(D) The past due dividends must be paid within 90 days of a common dividend being paid.
- 108.** Any corporation that has issued cumulative preferred stock
- (A) must pay the current preferred dividend before paying interest on their bonds or dividends on their common stock  
(B) must pay any past and current preferred dividends before paying any dividends on its common stock  
(C) must pay only the current dividend on their preferred stock before paying a dividend on their common stock  
(D) must pay only the current dividend with no liability for any missed dividends

- 109.** A company has previously issued 4% of \$100 par cumulative preferred stock. Over the first three years, the company paid out \$9 in dividends. If the company announces a common dividend in the following year, how much does it owe preferred stockholders?
- (A) \$3
  - (B) \$4
  - (C) \$7
  - (D) \$16
- 110.** A corporation has issued 6% \$100 par cumulative preferred stock. It paid \$4 in dividends the first year and \$3 in dividends the second year. If the corporation wants to declare a dividend for common shareholders the following year, how much must the company pay per share to its cumulative preferred stockholders?
- (A) \$5
  - (B) \$6
  - (C) \$11
  - (D) \$14
- 111.** A customer owns AylDec Corporation 6% cumulative preferred stock. AylDec has not paid a dividend yet this year, and they also missed the previous two years. If the AylDec wishes to pay a dividend to their common shareholders, how much must they pay this customer per share first?
- (A) \$24
  - (B) \$18
  - (C) \$12
  - (D) \$6
- 112.** One of your clients wants to purchase preferred stock but wants to reduce the risk of inflation. You should recommend
- (A) straight preferred stock
  - (B) callable preferred stock
  - (C) cumulative preferred stock
  - (D) convertible preferred stock
- 113.** ABCD Corp. issued convertible bonds. Holders of those bonds can
- (A) convert their bonds for a set number of non-convertible bonds at any time
  - (B) convert their bonds for a fixed number of shares of ABCD common stock
  - (C) convert their bonds for 10 shares of ABCD straight preferred stock
  - (D) convert their bonds into non-convertible bonds and receive a premium for doing so
- 114.** Which of the following types of preferred stock will most likely increase in value or decrease in value in line with the issuer's common shares?
- (A) Convertible preferred
  - (B) Straight preferred
  - (C) Participating preferred
  - (D) Adjustable rate preferred
- 115.** If interest rates remained relatively stable over the last year, which of the following types of preferred stock was likely the most volatile during that period?
- (A) Adjustable rate
  - (B) Callable
  - (C) Participating
  - (D) Convertible
- 116.** What is the advantage to a corporation issuing callable preferred stock as compared to non-callable preferred stock?
- (A) It allows the issuer to take advantage of high interest rates.
  - (B) The dividend rate on callable preferred stock is lower than that of non-callable preferred stock.
  - (C) It allows the issuer to issue preferred stock with a lower fixed dividend after the call date.
  - (D) Callable preferred stock usually has a longer maturity date.