

# 1001 Practice Questions

## Series 7 Exam

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**Steven M. Rice**  
Series 7 and SIE tutor







# 1001

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Practice Questions

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by Steven M. Rice

## Series 7 Exam: 1001 Practice Questions For Dummies®, 2nd Edition

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, [www.wiley.com](http://www.wiley.com)

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Library of Congress Control Number: 2023940076

ISBN 978-1-394-19288-5 (pbk); ISBN 978-1-394-19289-2 (ebk); ISBN 978-1-394-19290-8 (ebk)

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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 Series 7 exam. Make no mistake, the Series 7 can be a gorilla of an exam if you don't prepare adequately. It is not enough for you to have a good grasp on the material covered on the Series 7; 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 a 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 Series 7 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 125 questions or so encompassing all of the different chapters and subchapters. You may want to answer every eighth question 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 Series 7 exam on the first (or next) attempt.

## What You'll Find

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The 1,001 Series 7 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 facing 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.

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

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This product also comes with an online Cheat Sheet that helps you increase your odds of performing well. Go to [www.dummies.com.com](http://www.dummies.com.com) and type “Series 7 Exam: 1001 Practice Questions For Dummies cheat sheet” in the search box. Here, you’ll find articles on how to prepare for the Series 7.

## Where to Go for Additional Help

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I wouldn’t say that any part of the Series 7 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 one of the tougher exams you can take.

In addition to getting help from people who have recently passed the Series 7, Series 7 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.

*Series 7 Exam: 1001 Practice Questions For Dummies* gives you just that — 1,001 practice questions and answers in order for you to prepare yourself for the Series 7 exam. If you need more in-depth study and direction, check out the latest edition of *Series 7 Exam For Dummies*, which I also wrote. This book provides you with the background info you need along with coverage of all the topics and concepts that are tested on the Series 7 exam. In addition, you get full-length exams to prepare yourself for test day.

**1**

**Practicing 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)

Margin Accounts (Chapter 5)

Packaged Securities (Chapter 6)

Direct Participation Programs (Chapter 7)

Options (Chapter 8)

Portfolio and Securities Analysis (Chapter 9)

Orders and Trades (Chapter 10)

Taxes and Retirement Plans (Chapter 11)

Rules and Regulations (Chapter 12)

# Chapter 1

## Underwriting Securities

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 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
- » Who gets what (distribution of profits)
- » 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.

## 1-22 Bringing New Issues to Market

1. For an entity to become a corporation, they must file a \_\_\_\_\_ with their home state of business.
  - (A) registration statement
  - (B) statement of additional information (SAI)
  - (C) corporate charter
  - (D) prospectus
2. GNU Corporation is planning to issue new shares to the public. GNU has not yet filed a registration statement with the SEC. An underwriter for GNU may do which of the following?
  - (A) Accept money from investors for payment of the new issue of GNU.
  - (B) Send a red herring to investors.
  - (C) Accept indications of interest.
  - (D) None of the above.
3. 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
4. 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
5. SEC Rule 415 outlines rules for
  - (A) primary offerings
  - (B) shelf offerings
  - (C) secondary offerings
  - (D) IPOs
6. The cooling-off period for a new issue lasts approximately how many days?
  - (A) 20
  - (B) 30
  - (C) 40
  - (D) 60
7. All of the following terms apply to a new issue of securities EXCEPT
  - (A) stabilization
  - (B) due diligence
  - (C) matching orders
  - (D) cooling-off period
8. 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



9. Which of the following MAY NOT occur during the cooling-off period?
- (A) Having a due diligence meeting
  - (B) Obtaining indications of interest
  - (C) The publishing of a tombstone ad
  - (D) Soliciting sales of the new security
10. If AylDec Corporation wishes to have a public offering of common stock, they must
- I. issue a prospectus
  - II. publish a tombstone advertisement
  - III. register the securities with the SEC
- (A) I and II
  - (B) II and III
  - (C) I and III
  - (D) I, II, and III
11. 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
12. All of the following would be included on a tombstone ad EXCEPT
- (A) the name of the issuer
  - (B) the names of the selling groups
  - (C) the names of the syndicate members
  - (D) the name of the syndicate manager
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. 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
15. This type of state securities registration is used for established companies that have previously sold securities in the state.
- (A) Notification
  - (B) Coordination
  - (C) Indemnification
  - (D) Qualification

- 16.** This type of state securities registration is used for securities that are exempt from SEC registration but must register with the state.
- (A) Notification
  - (B) Coordination
  - (C) Indemnification
  - (D) Qualification
- 17.** All of the following may be determined by the managing underwriter EXCEPT
- (A) the takedown
  - (B) the public offering price
  - (C) the effective date
  - (D) the allocation of orders
- 18.** The SEC has ruled that an offering has become effective. This means that
- (A) the SEC has approved the issue
  - (B) the SEC has cleared the issue
  - (C) the SEC has verified the accuracy of the information provided on the registration statement
  - (D) all of the above
- 19.** Which of the following securities acts covers the registration and disclosure requirements of new issues?
- (A) Securities Act of 1933
  - (B) Securities Exchange Act of 1934
  - (C) Trust Indenture Act of 1939
  - (D) All of the above
- 20.** Which of the following are covered under the Securities and Exchange Act of 1934?
- I. Margin accounts
  - II. Trust indentures
  - III. Proxies
  - IV. Short sales
- (A) I, II, and III
  - (B) II and IV
  - (C) III and IV
  - (D) I, III, and IV
- 21.** The Trust Indenture Act of 1939 prohibits corporate bond issues valued greater than \_\_\_\_\_ from being offered to investors without an indenture.
- (A) \$5 million
  - (B) \$10 million
  - (C) \$50 million
  - (D) \$75 million
- 22.** 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

## 23-47 Agreement Among Underwriters

- 23.** 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 syndicate agreement
  - (D) The code of procedure
- 24.** Which of the following documents would contain the allocation of orders?
- (A) Official statement
  - (B) Trust indenture
  - (C) Syndicate agreement
  - (D) Preliminary prospectus
- 25.** 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

- 26.** An investment banking firm has won a competitive bid for a corporate underwriting of ABCDE common stock. The investment banking firm has agreed to purchase the shares from the issuer. This type of offering is a(n)
- (A) all-or-none underwriting
  - (B) best efforts underwriting
  - (C) standby underwriting
  - (D) firm commitment underwriting
- 27.** Which of the following is NOT a type of bond underwriting?
- (A) Mini-max
  - (B) Best efforts
  - (C) Standby
  - (D) AON
- 28.** 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
- 29.** Selling group members are required to sign a
- (A) syndicate agreement
  - (B) letter of intent
  - (C) selling group agreement
  - (D) repurchase agreement
- 30.** Stabilizing bids may be entered at
- (A) a price at or below the public offering price
  - (B) the stabilizing price stated in the final prospectus
  - (C) a price at or slightly above the public offering price
  - (D) a price deemed reasonable by the Fed
- 31.** The public offering price to purchase a new issue of DEF Corporate bonds is \$1,000. However, the issuer receives only \$989 per bond. What is the \$11 difference called?
- (A) The takedown
  - (B) The underwriting spread
  - (C) The additional takedown
  - (D) The concession
- 32.** Place the following in order from largest compensation to smallest compensation in an underwriting spread.
- I. Concession
  - II. Manager's fee
  - III. Reallowance
  - IV. Takedown
- (A) IV, I, III, II
  - (B) II, III, I, IV
  - (C) I, II, III, IV
  - (D) III, II, I, IV
- 33.** What is the profit syndicate members make when selling shares of a new issue?
- (A) The concession
  - (B) The takedown
  - (C) The reallowance
  - (D) The spread
- 34.** The smallest portion of a corporate underwriting spread is the
- (A) concession
  - (B) takedown
  - (C) reallowance
  - (D) manager's fee
- 35.** During an underwriting the profit made by syndicate members on shares or bonds sold by the selling group is called
- (A) the selling group concession
  - (B) the takedown
  - (C) the additional takedown
  - (D) the reallowance

- 36.** Armbar common stock is being sold to a syndicate during an underwriting for \$13.50 per share. The public offering price is \$15.00 per share, and the manager's fee is \$0.25 per share. If the concession is \$0.80 per share, what is the additional takedown?
- (A) \$0.45 per share
  - (B) \$1.15 per share
  - (C) \$1.25 per share
  - (D) \$1.50 per share
- 37.** TUV Corp. is offering 6 million new shares to the public. The shares are being sold to a syndicate for \$15 and are being reoffered to the public at \$16. The compensation to the underwriters for each share sold is \$0.75. The selling group receives \$0.30 a share for each share it sells, and the managing underwriter retains \$0.25 in fees for each share sold by anybody. The selling group will assist in selling 1 million of the 6 million shares offered. If the selling group sells its entire allotment, how much does the syndicate make on shares sold by the selling group?
- (A) \$200,000
  - (B) \$300,000
  - (C) \$450,000
  - (D) \$750,000
- 38.** Faber Hughes Corporation is offering 2 million new shares to the public. The shares are being sold to a syndicate for \$8 and are being reoffered to the public at \$9. The takedown for each share sold is \$0.85. The concession is \$0.55 a share, and the managing underwriter retains \$0.15 in fees for each share sold by anybody. The selling group will assist in selling 500,000 of the 2 million shares offered. If the selling group sells its entire allotment, how much does it make in profits?
- (A) \$425,000
  - (B) \$150,000
  - (C) \$350,000
  - (D) \$275,000
- 39.** A municipality is offering \$20 million of new bonds through a syndicate in a negotiated offering. A firm in a syndicate that is established as a Western account is responsible for selling \$2 million of the bonds. After the firm sells \$1.8 million of the firm's allotment, the manager of the syndicate determines that there are \$4 million of bonds left unsold. How much of the unsold bonds is the firm responsible for selling?
- (A) 0
  - (B) 200,000
  - (C) 400,000
  - (D) 600,000
- 40.** Liddell Securities is part of a syndicate that is offering new shares of SLAM Corporation common stock to the public. There are 8 million shares being offered to the public, and Liddell Securities is allocated 1 million shares. After selling its allotment, 800,000 shares remain unsold by other members. How much of the remaining shares would Liddell Securities be responsible for?
- I. 100,000 shares if the offering was on an Eastern account basis
  - II. 100,000 shares if the offering was on a Western account basis
  - III. 0 shares if the offering was on an Eastern account basis
  - IV. 0 shares if the offering was on a Western account basis
- (A) I and IV
  - (B) II and III
  - (C) I and II
  - (D) III and IV

- 41.** A syndicate is offering 10 million new shares to the public on an Eastern account basis. A member of the syndicate is responsible for selling 2.5 million shares. After selling its entire allotment, 1 million shares are left unsold by other members. How many additional shares is the firm responsible for selling to the public?
- (A) 0  
 (B) 100,000  
 (C) 250,000  
 (D) 1 million
- 42.** 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
- 43.** 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
- 44.** When is a red herring available to potential customers?
- (A) Prior to the issuer filing a registration statement  
 (B) During the cooling-off period  
 (C) For 45 days after the issue has become effective  
 (D) For 60 days after the issue has become effective
- 45.** The key difference between a preliminary prospectus and a final prospectus is that the final prospectus includes
- (A) the offering price  
 (B) the issuer's income statement  
 (C) the issuer's balance sheet  
 (D) the issuer's income statement and balance sheet
- 46.** 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
- 47.** 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
- 48.** Which TWO of the following are considered securities under the Securities Act of 1933?
- I. Variable annuities  
 II. Fixed annuities  
 III. FDIC insured negotiable CDs  
 IV. Oil and gas limited partnerships
- (A) I and III  
 (B) I and IV  
 (C) II and III  
 (D) II and IV

## 48-64 Reviewing Exemptions

- 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 non-exempt securities?
- I. Municipal GO bonds
  - II. Treasury notes
  - III. Blue chip stocks
  - IV. Variable annuities
- (A) I and II
  - (B) II and III
  - (C) III and IV
  - (D) I and IV
- 51.** Which of the following securities is NOT exempt from SEC registration?
- (A) Limited partnership public offerings
  - (B) Treasury notes sold at auction
  - (C) Rule 147 offerings
  - (D) Private placements
- 52.** All of the following are exempt securities under the Act of 1933 EXCEPT
- (A) treasury bonds
  - (B) municipal general obligation bonds
  - (C) REITs
  - (D) public utility stocks
- 53.** 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
- 54.** Which of the following Securities Act of 1933 exemptions may be used for an initial offering of securities?
- I. Rule 144
  - II. Rule 147
  - III. Regulation D
  - IV. Regulation S
- (A) I, II, and III
  - (B) II and IV
  - (C) III and IV
  - (D) II, III, and IV
- 55.** 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 \$5 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

- 56.** Which of the following is TRUE of Regulation A+ Tier 1 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 \$10 million per year.
  - (D) They are also known as private placements.
- 57.** Which of the following exempt transactions deals with an offering of \$75,000,000 worth of securities or less in a 12-month period?
- (A) Regulation A+ Tier 1
  - (B) Regulation A+ Tier 2
  - (C) Regulation D
  - (D) Regulation S
- 58.** A Regulation S exemption under the Securities Act of 1933 is for
- (A) a non-U.S. issuer issuing new securities to U.S. investors
  - (B) a U.S. issuer issuing new securities to non-U.S. investors
  - (C) a U.S. issuer issuing new securities to U.S. investors
  - (D) a non-U.S. issuer issuing new securities to non-U.S. investors
- 59.** One of your clients purchased unregistered securities overseas from a U.S. corporation under Regulation S. Which of the following is TRUE?
- I. They are exempt transactions.
  - II. They are exempt securities.
  - III. The securities must be held for 270 days before they can be resold in the United States.
  - IV. The securities must be held for one year before they can be resold in the United States.
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
- 60.** A Regulation D private placement is
- (A) an offering of securities to no more than 35 unaccredited investors in a 12-month period
  - (B) an intrastate offering
  - (C) an offering of securities worth no more than \$5 million in a 12-month period
  - (D) a large offering of commercial paper
- 61.** Mike Steelhead and his wife, Mary, would like to open a joint account at your firm. They are interested in purchasing a private placement under Regulation D. You should inform them that to be considered accredited investors, they must have a combined annual income of at least
- (A) \$200,000
  - (B) \$300,000
  - (C) \$500,000
  - (D) \$1 million

**62.** One of your clients wants to purchase a private placement. According to Regulation D, which of the following are the minimum standards for an accredited investor?

- I. A net worth exceeding \$1 million excluding primary residence
- II. A net worth exceeding \$300,000 excluding primary residence
- III. An annual income exceeding \$100,000 in each of the two most recent years and a reasonable expectation of the same income level in the current year
- IV. Annual income exceeding \$200,000 in each of the two most recent years and a reasonable expectation of the same income level in the current year

- (A) I and III
- (B) I and IV
- (C) II and III
- (D) II and IV

**63.** Derrick Diamond has held restricted stock for six months. When must Derrick file a Form 144 with the SEC to sell the stock publicly?

- (A) At the time of sale
- (B) 30 days after the sale
- (C) 60 days after the sale
- (D) 90 days after the sale

**64.** 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



## Chapter 2

# Equity Securities

**T**o 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
- » Voting rights and dividends
- » The difference between common stock and preferred stock
- » The reason for American depositary receipts (ADRs)
- » What rights and warrants are

## 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.

## 65–87 Common Stock

- 65.** 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
- 66.** You have a new client who is new to investing. They are concerned about taking too much risk. Which of the following investments could you tell them is the riskiest?
- (A) Common stock  
(B) Preferred stock  
(C) Debentures  
(D) GO bonds
- 67.** Which of the following investments exposes an investor to the greatest risk?
- (A) TUV subordinated debentures  
(B) TUV mortgage bonds  
(C) TUV common stock  
(D) TUV preferred stock
- 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.** An investor owns 200 shares of JKL common stock. JKL stockholders can vote only by way of statutory voting. If JKL holds an election in which six candidates are running for three seats on the board, this investor could cast
- (A) 600 votes for any one candidate  
(B) 100 votes each for any six candidates  
(C) 200 votes for each of the three positions  
(D) Any of the above
- 71.** Which type of voting benefits minority shareholders?
- (A) Cumulative  
(B) Statutory  
(C) Regular  
(D) Senior
- 72.** 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

- 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.** 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
- 75.** MKR Corporation's by laws have authorized 20 million shares of common stock. MKR has issued 12 million shares of common stock and has 2 million shares of treasury stock. How many shares of MKR common stock are authorized but still unissued?
- (A) 2 million  
 (B) 6 million  
 (C) 10 million  
 (D) 8 million
- 76.** Which of the following does NOT describe treasury stock?
- (A) It has 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.
- 77.** Treasury stock is
- (A) U.S. government stock  
 (B) local government stock  
 (C) authorized but unissued stock  
 (D) repurchased stock
- 78.** 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
- 79.** 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
- 80.** 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. 2 business days before the record date  
 IV. 2 business days after the trade date
- (A) I and III  
 (B) I and IV  
 (C) II and III  
 (D) II and IV

- 81.** 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
- 82.** 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
- 83.** 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
- 84.** Rule 145 applies to reclassification of securities in which of the following situations?
- (A) Stock splits
  - (B) The issuance of convertible securities
  - (C) The issuance of non-voting common stock
  - (D) Consolidations
- 85.** Unless otherwise exempt, all investors of penny stocks must receive
- (A) a quarterly account statement
  - (B) a risk disclosure document
  - (C) an ODD
  - (D) a statement of additional information (SAI)
- 86.** Which TWO of the following are TRUE regarding penny stocks?
- I. They are Nasdaq securities.
  - II. They are non-Nasdaq securities.
  - III. They are stocks that trade under \$1 per share.
  - IV. They are stocks that trade under \$5 per share.
- (A) I and III
  - (B) I and IV
  - (C) II and III
  - (D) II and IV
- 87.** An investor is recommended by a registered rep to purchase stock of DDDD Corporation. Currently, DDDD trades at \$3 per share on the OTCBB. According to the “penny stock rule,” a registered rep usually needs a written suitability statement signed by the investor. All of the following are exemptions from the suitability statement requirement EXCEPT
- (A) unsolicited transactions
  - (B) accredited investors
  - (C) a one-year customer of the broker-dealer
  - (D) a customer who has purchased two different penny stocks previously through the broker-dealer of the rep

## 88–103 Preferred Stock

- 88.** Which of the following are TRUE about both preferred and common stock?
- They are equity securities.
  - Dividends are determined by the issuer's board of directors.
  - Holders have the right to vote for members of the board of directors.
- (A) I and II  
(B) I and III  
(C) II and III  
(D) I, II, and III
- 89.** Which of the following are advantages of holding straight preferred stock over common stock?
- A fixed dividend
  - More voting power
  - Preference in the event of issuer bankruptcy
  - 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
- 90.** Preferred dividends may be paid in the form of
- cash
  - stock
  - product
- (A) I only  
(B) I and II  
(C) I and III  
(D) I, II, and III
- 91.** Which TWO of the following are TRUE of preferred stock?
- Holders have voting rights.
  - Holders do not have voting rights.
  - In the event of corporate bankruptcy, preferred stock is senior to common stock.
  - 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
- 92.** Interest rates have just increased. Investors would expect that the prices of their straight preferred stock would
- increase
  - decrease
  - remain the same
  - first increase then decrease
- 93.** 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?
- \$3
  - \$4
  - \$7
  - \$16
- 94.** One of your customers wants to purchase preferred stock that would help them reduce inflation risk. Which of the following types of preferred stock would you recommend?
- Participating
  - Convertible
  - Cumulative
  - Noncumulative

- 95.** 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
- 96.** If DEF preferred stock (\$100 par) is convertible into common stock for \$20, what is the conversion ratio?
- (A) 1 share
  - (B) 5 shares
  - (C) 20 shares
  - (D) 100 shares
- 97.** An investor purchases a DEF 4% convertible preferred stock at \$90. The conversion price is \$25. If the common stock is trading one point below parity, what is the price of DEF common stock?
- (A) \$21.50
  - (B) \$22.50
  - (C) \$24.00
  - (D) \$26.00
- 98.** With everything else being equal, a preferred stockholder would expect \_\_\_\_\_ preferred stock to pay the highest dividend.
- (A) convertible
  - (B) straight
  - (C) callable
  - (D) cumulative
- 99.** 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.
- 100.** Callable preferred stock is most advantageous to the issuer because
- (A) the issuer can issue high-dividend stock
  - (B) the issuer can issue stock with a lower dividend
  - (C) the issuer can call in the stock at a price less than par value
  - (D) the issuer can replace stock with a higher dividend with stock with a lower dividend
- 101.** Platinum Edge Corp. is offering 5% participating preferred stock. The 5% represents the
- (A) minimum yearly dividend payment
  - (B) average yearly dividend payment
  - (C) maximum yearly dividend payment
  - (D) exact yearly dividend payment
- 102.** In the event of corporate bankruptcy, which of the following preferred shareholders would be paid first?
- (A) Variable preferred shareholders
  - (B) Prior preferred shareholders
  - (C) Participation preferred shareholders
  - (D) Callable preferred shareholders