

Finance Series-7

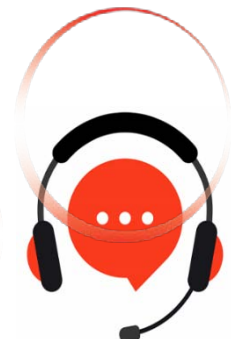
General Securities Representative Exam (GS)

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Question: 1

Authorized stock is all of the following except:

- A. Arbitrarily determined at the time of incorporation and may not be changed
- B. Sold to investors to raise operating capital for the company
- C. The maximum number of shares a company may sell
- D. May be sold in total or in part at the beginning of the company

Answer: A

Explanation:

If the shareholders vote and approve an increase in the number of shares, then more stock may be issued.

Question: 2

All of the following are rights of common stockholders except?

- A. Right to elect the board of directors
- B. Right to vote for executive compensation
- C. Right to vote for a stock split
- D. Right to maintain their percentage of ownership in the company

Answer: B

Explanation:

A stockholder does not get to vote directly for executive compensation.

Question: 3

You work for ABC Muni Brokers and are part of the syndicate team at ABC. Your firm is the lead underwriter of \$100 million worth of state GO bonds. When must your firm settle the syndicate account?

- A. Within 15 days of the dated date
- B. Within 30 calendar days after receipt of the bonds from the issuer
- C. Within 30 calendar days of delivery of the official statement
- D. Within 15 days of when the last bond is sold

Answer: B

Explanation:

The syndicate account must be settled within 30 calendar days of delivery of the bonds from the issuer, to the syndicate.

Question: 4

The IRS limits option activity as it relates to the holding period for securities. Which of the following would end an investor's holding period?

- I. The sale of an at the money call
- II. The sale of a deep in the money put
- III. The sale of a deep in the money call
- IV. The purchase of a put

- A. III and IV
- B. I, II, III, IV
- C. II and IV
- D. I and III

Answer: A

Explanation:

Of the choices listed only the sale of the deep in the money call and the purchase of a put would end the investor's holding period.

Question: 5

Your customer sold short 1000 ABC at 42 and buys 10 ABC May 45 calls at 1.10. What is their maximum loss?

- A. Unlimited
- B. \$1,100
- C. \$4,100.00
- D. \$40,900

Answer: C

Explanation:

Their maximum loss would be the difference between their break even of 40.90 and the strike price of 45 or $4.10 \times 1000 = \$4,100$.

Question: 6

A customer who purchased 1,000 shares of XYZ on margin two months ago and has not executed any order since must:

- A. Need not receive a statement this month
- B. Receive a statement this month
- C. Have received a statement for the last two months and must receive one this month as well.
- D. Have received a statement for the last two months only

Answer: C

Explanation:

A customer must receive a statement whenever there is activity in the account. The investor purchased the shares two months ago and must have received a statement that month. Since the shares were purchased on margin interest is being charged interest on the loan. The debiting of interest to the customer's account is considered activity and the customer must receive a statement for those months as well.

Question: 7

The rate at which the Federal Reserve lends money to other banks is called the:

- A. Discount rate
- B. Federal funds rate
- C. LIBOR
- D. Bank loan rate

Answer: A

Explanation:

The Federal Reserve lends money to banks at the discount rate.

Question: 8

An investor has an \$8,000 long-term gain and a \$6,000 short-term loss. The investor is a high income earner and is in the 20% tax bracket for capital gains. The investor will have to pay taxes of:

- A. \$1,440.00
- B. \$400.00
- C. \$112.00
- D. \$2,000.00

Answer: B

Explanation:

The investor has a \$2,000 net capital gain, therefore, will pay 20% or \$400 in taxes.

Question: 9

Under MSRB regulations which of the following situations would be subject to the most scrutiny?

- A. The broker dealer retains a municipal bond consultant to help secure negotiated underwritings
- B. The broker dealer is the financial adviser to an issuer
- C. An employee is the current president of the school board of a large city
- D. An employee is the former governor of the state of New York

Answer: B

Explanation:

While all of the choices would be cause for additional review or disclosures, the broker dealer who is an adviser to an issuer of municipal securities would be cause for the highest concern. There are significant potential conflicts of interest which all must be disclosed and a number of required actions that need to be taken to ensure compliance.

Question: 10

A corporate bond purchased at 150 with an annual interest rate of 8% has what current yield?

- A. 7.50%
- B. 12.00%
- C. 5.33%
- D. 12000.00%

Answer: C

Explanation:

Current yield is always a relationship between income and price. Current yield = annual income / current market price. Annual income (\$80) divided by the current market price (\$1,500) = 5.33%.

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