

## SIE Practice Exam - Questions

1. When a broker-dealer acts on an agency basis to help a customer complete trades, the firm normally is compensated through
  - A. commissions.
  - B. mark-ups.
  - C. asset-based fees.
  - D. transaction surcharges.
2. Investment company financial statements are sent to shareholders
  - A. monthly.
  - B. quarterly.
  - C. semiannually.
  - D. annually.
3. The credit quality of an exchange-traded note is
  - A. primarily connected to the strength of the underlying security.
  - B. based on the credit worthiness of the issuer, typically the investment bank that structures the note.
  - C. usually very strong, since they are commonly sold by broker-dealers who must meet minimum capital standards.
  - D. always difficult to determine owing to the lack of disclosure required when selling these products to the public.
4. When opening a margin account, the agreement that customers sign to pledge their securities as collateral for a loan from the broker-dealer is the
  - A. margin agreement.
  - B. hypothecation agreement.
  - C. re-hypothecation agreement.
  - D. loan agreement.
5. When comparing rights and warrants, which of the following statements is TRUE?
  - A. Warrants have shorter expiration periods than rights
  - B. The exercise price of a right is generally below the price of the stock when the right is issued; the exercise price of the warrant is generally above the price of the stock when it is issued.
  - C. Rights are often added to bond issues as sweeteners; warrants are offered to existing shareholders to permit them to maintain their proportionate interest in the company when additional shares are issued
  - D. Warrants protect shareholders against dilution, rights do not
6. A registered representative located in California makes a 7:30pm cold call to a potential customer in New Jersey. This is
  - A. permitted as long as the potential customer is not on the do-not-call-list.
  - B. permitted as long as the registered rep had prior verbal consent from the potential customer.
  - C. permitted because the call occurred between the hours of 8am and 9pm.
  - D. prohibited because cold calls can only be made between 8am and 9pm in the potential customer's time zone.
7. Investors whose bonds have been called as interest rates have fallen are now facing
  - A. credit risk.
  - B. inflation risk.
  - C. reinvestment rate risk.
  - D. capital risk.

8. Helen opened a Roth IRA last year and wants to know what part of this year's contributions she can deduct. The answer is
- she can deduct 100%.
  - it depends on her income.
  - it depends on her age.
  - she can't deduct any amount.
9. During the accumulation phase of a variable annuity, dividends, interest, and capital gains
- may be withdrawn with no tax implications.
  - are taxed as ordinary income if the contract is non-qualified.
  - are taxed as capital gains if the contract is non-qualified.
  - may be reinvested without any current tax liability.
10. Dollar limits on 529 plan contributions per beneficiary are set by
- the federal government.
  - the Municipal Securities Rulemaking Board.
  - various states.
  - the College Board.
11. With regard to the price of closed-end fund shares held by investors which of the following statements is TRUE?
- The price is set by formula each business day
  - Shares may be sold at a discount or premium to their NAV
  - Shares are sold at the price calculated at the close of business on that day
  - Shares are sold at a discount when the securities in the fund have increased in value relative to their NAV
12. A customer requests in writing that his account statements be held by the firm while he spends the winter in Florida. In response to the customer's request, the firm is permitted to honor the request
- for the time period specified by the customer.
  - for a maximum of one month.
  - for a maximum of two months.
  - for a maximum of three months.
13. Which of the following is not an example of a restricted person under FINRA rules?
- The spouse of a restricted person
  - The uncle of a restricted person
  - The brother-in-law of a restricted person
  - The child of a restricted person
14. The order of liquidation in a limited partnership is
- general partner, limited partner, unsecured bondholder, secured bondholder.
  - secured bondholder, general partner, unsecured bondholder, limited partner.
  - secured bondholder, unsecured bondholder, limited partner, general partner.
  - general partner, secured bondholder, limited partner, unsecured bondholder.
15. All of the following sectors are considered cyclical EXCEPT
- healthcare.
  - hotel.
  - steel.
  - furniture.

16. Which of the following interest rates is established by the Federal Reserve Board?
- Prime rate
  - Fed Funds rate
  - Money Market rate
  - Discount rate
17. Pursuant to Regulation S-P, a broker-dealer must provide a privacy notice to a customer
- at the time a solicitation is made to purchase a security.
  - when a confirmation of a trade is sent.
  - when a statement of account is sent.
  - prior to engaging in any securities business with that customer.
18. Which of the following events would subject an individual to a statutory disqualification?
- A felony conviction 11 years ago
  - An indictment for a securities related felony 3 years ago
  - A conviction for a non-securities related misdemeanor six months ago
  - A conviction for a securities related misdemeanor 9 years ago
19. Noreen and her husband Jeff, residents of New York City, have just had their first child Ali. They are interested in opening a 529 Plan for Ali in order to save for her future college education. As a registered representative, it would be most appropriate to tell them
- to invest in a New York state 529 as there may be certain tax advantages at the federal level.
  - to invest in a New York state 529 as there may be certain tax advantages at the state level.
  - to invest in a 529 Plan outside of New York state as there may be certain tax advantages at the federal level.
  - it does not matter which state they open up a 529 Plan in as the distributions will be treated the same regardless.
20. Which of the following regulators enforce the MSRB rules for securities firms?
- FINRA
  - Federal Reserve
  - Comptroller of the Currency
  - FDIC
21. A primary difference between Ginnie Mae and Fannie Mae/Freddie Mac is that Ginnie Mae
- only finances commercial mortgages, whereas the others finance home mortgages.
  - mortgages are only available for government subsidized housing, while the others are available for all real estate purchases.
  - is a publicly held company while the others are privately held.
  - is a government agency that has the explicit backing of the US government, while the others do not.

22. Trader R hears news from an underwriter that his firm will be buying a large block of XYZ Co stock. If R buys shares of the stock before the news is made public, he is engaged in
- bid-rigging.
  - insider trading.
  - rumoring.
  - front-running.
23. The theory that says the economy is best controlled through taxation and government spending is known as
- Classical economic theory.
  - Monetarist economic theory.
  - Open market operations.
  - Keynesian economic theory.
24. If a customer wishes to open a short margin account and sell short 100 shares of stock at \$15 per share, the customer must deposit
- \$750.
  - \$1,000.
  - \$1,000.
  - \$2,000.
25. An investor sells short 100 shares of XYZ stock at 61 and buys 1 XYZ 65 call for 1.50 When the market price of ABC is 62. What is the investor's breakeven on the combined positions?
- 59.5
  - 60.5
  - 62.5
  - 63.5
26. Preferred stock includes which of the following features?
- Voting rights
  - Dividends if declared by the Board of Directors
  - Priority over debentures in a corporate liquidation
- I only
  - II only
  - III only
  - I, II and III
27. Which of the following organizations guarantees the performance of standardized options contracts?
- OCC
  - CBOE
  - FINRA
  - SEC
28. When opening a minor's account, the social security number to be used is that of the
- parent.
  - minor.
  - custodian.
  - registered rep.
29. A municipal finance professional at JoeBrokerDealer made a contribution of \$500 to candidate in a local election that resulted in a ban on underwriting activity. A month later the MFP joined a new municipal securities firm, JaneBrokerDealer. The remainder of the two-year ban will apply to
- neither JoeBrokerDealer or JaneBrokerDealer.
  - both JoeBrokerDealer and JaneBrokerDealer.
  - JoeBrokerDealer only.
  - JaneBrokerDealer only.

30. In order to receive a dividend, a shareholder must own stock as of the
- A. declaration date.
  - B. ex-dividend date.
  - C. record date.
  - D. payable date.
31. When calculating total return on a bond,
- A. interest earned is added to any capital gain, and this result is then divided by the initial purchase price.
  - B. interest earned is subtracted from any capital gain, and this result is then divided by the initial purchase price.
  - C. interest earned is divided by the redemption value of the bond.
  - D. interest earned is subtracted from the redemption value of the bond.
32. A representative's personal account has been identified for review because of account activity in which securities were bought and quickly sold, often on the following day. This may be evidence of the prohibited practice called
- A. commingling.
  - B. freeriding.
  - C. front-running.
  - D. selling away.
33. All the following are exempt from the registration requirements of the Securities Act of 1933 except
- A. A rated municipal bonds.
  - B. AAA rated corporate bonds.
  - C. US Treasury bonds.
  - D. domestic bank securities.
34. A communication made available to 20 institutional clients and 20 retail clients is classified as
- A. retail communication.
  - B. correspondence.
  - C. institutional communication.
  - D. a blog post.
35. Bonds that are issued by state and local governments but benefit a private corporate are
- A. double-barreled bonds.
  - B. industrial revenue bonds.
  - C. special assessment bonds.
  - D. moral obligation bonds.
36. The threshold to qualify for a sales charge discount on a mutual fund is \$75,000. An investor places an order for \$72,500 of this fund and is not informed by the registered rep that he would be entitled to a sales charge discount if he invests an additional \$2,500. This is an example of a
- A. breakpoint.
  - B. letter of intent.
  - C. breakpoint sale.
  - D. value investor.
37. Accrued interest is calculated from the
- A. dated date and continues to the settlement date.
  - B. last coupon date and continues to the day prior to the settlement date.
  - C. last coupon date and continues through the settlement date.
  - D. dated date to the next coupon date.

38. An upward sloping yield curve indicates
- that bond prices are increasing.
  - that yields are falling.
  - that long-term interest rates are higher than short-term interest rates.
  - the Federal Reserve Board is pursuing a tight monetary policy.
39. Penny stocks present added risk to customers because of
- their potential lack of liquidity.
  - their high surrender charges.
  - their low potential for return.
  - their potential for exposure to adverse tax consequences.
40. Which of the following terms describes a broker-dealer's practice of interjecting another broker-dealer into the middle of a trade, resulting in an increase in commission at the customer's expense?
- Interpositioning
  - Front-running
  - Churning
  - Collaboration
41. Commercial paper, bankers' acceptances and large time deposits are part of what segment of the fixed income market?
- Corporate bonds
  - Municipal
  - Asset-backed
  - Money market
42. For existing customer accounts, how often do broker-dealers required to send a written notice to the customer for verification of account information?
- Annually
  - Every two years
  - Every 3 years
  - Every 5 years
43. A company "reverse splits" its stock on a 1-for-10 basis. If an investor holds 800 shares before the event, what will be the impact of the split, if any, on the total value of the investors' shares?
- Total value will decline by 10%
  - Total value will decline by 90%
  - Total value will increase by 10 times
  - Total value will not change
44. Joe is a registered rep currently employed by MidWest Broker-Dealer, a St. Louis based firm. Joe likes to leave downtown and drive through the rural fields of the Midwest on the weekends. He so enjoys the open plains that he chats with his 12 closest family members to borrow \$200,000 and open his very own farm. Which of the following is true regarding this action?
- Joe must notify MidWest that he is borrowing money from family members
  - Joe must notify MidWest that he is engaging in outside business activity
  - Joe must notify MidWest that he is engaging in an outside business activity and must await permission from his firm before moving forward
  - This type of outside business activity is prohibited by FINRA rules
45. A corporate bond that is currently trading at 95 pays a semi-annual coupon of \$25. What is the current yield?
- 0.025
  - 0.0263
  - 0.05
  - 0.0526
46. Which of the bonds listed below would have the greatest price volatility?
- A variable rate bond
  - A short-term investment grade bond
  - A long-term zero-coupon bond
  - A Treasury note

47. Investors purchase common stock primarily for
- the income stream it generates.
  - its appreciation potential.
  - its relative safety.
  - its resistance to business risk.
48. The Nasdaq market is a(n)
- negotiated market.
  - auction market.
  - transfer market.
  - double-auction market.
49. A customer deposits \$2,000 of cash into a brokerage account in the morning and \$10,000 in cash into the same account that afternoon. The firm is required to file
- a SAR.
  - a CMIR.
  - a CTR.
  - nothing at this time, but this suspicious activity should be monitored.
50. To avoid double taxation on dividends paid to shareholders, REITs must invest what portion of their total assets in real estate?
- Substantially all
  - At least 90%
  - At least 75%
  - At least 51%
51. As part of Rule 144A, the SEC created another category of financially sophisticated investors known as
- accredited investors.
  - qualified institutional buyers.
  - qualified asset managers.
  - sophisticated wealthy individuals.
52. A husband and wife wish to open a brokerage account in which the husband will own 60% and the wife 40%. At either owner's death, the owner's portion will be liquidated and distributed to his/her beneficiary. What type of account should they open?
- Tenancy in common
  - Joint Tenancy with Rights of Survivorship
  - Partnership
  - Tenancy by the Entirety
53. When the market price of a bond is lower than its par value,
- its nominal yield is higher than its YTM.
  - its current yield is lower than its nominal yield.
  - its YTM is higher than its current yield.
  - its nominal yield and its YTM are the same.
54. What tax benefit do municipal bonds offer to individual U.S. investors?
- Low tax rates on capital gains
  - Investment tax credits
  - Tax-exempt interest
  - Avoidance of Alternative Minimum Tax
55. Which of the following options positions obligates an investor to purchase stock?
- Long call
  - Long put
  - Short call
  - Short put
56. All of the following are features of ETFs EXCEPT
- typically lower fees than closed-end company shares.
  - redeemed by the issuer.
  - often track an index or other benchmark.
  - initially capitalized through a public IPO.

57. XYZ Inc. declares a \$0.30 dividend payable on Monday, August 15, to all shareholders of record as of Monday, August 8. When is the ex-dividend date for a regular way trade in the stock?
- Tuesday, August 2
  - Wednesday, August 3
  - Thursday, August 4
  - Friday, August 5
58. An investor has 100 shares of XYZ stock at \$90 per share. After a 3-for-1 split, the investor can expect to own
- 100 shares at \$30 per share.
  - 100 shares at \$90 per share.
  - 300 shares at \$30 per share.
  - 300 shares at \$90 per share.
59. In a 401(k) with a Roth account option, how are employer matching contributions allocated?
- To either the regular 401(k) or Roth account, at the employee's option
  - To either the regular 401(k) or Roth account, at the employer's option
  - To the regular 401(k) only
  - To the Roth account only
60. Which of the following is a key difference between a Traditional IRA and a Roth IRA?
- The annual contribution deadline is different
  - Annual contribution limits are higher in Traditional IRAs
  - Roth IRAs are not available to everyone with earned income, but Traditional IRAs are.
  - A 10% penalty for withdrawals before age 59 ½ exists only in a Traditional IRA, not a Roth IRA
61. An unsecured bond is also known as a(n)
- indenture.
  - collateral trust bond.
  - debenture.
  - private activity bond.
62. The SEC has declared a new public offering effective. This indicates that
- the SEC approves of the new issue.
  - the SEC has verified the issuer's information.
  - the SEC has cleared the issuance for public sale.
  - the SEC recommends the issuer's securities for purchase.
63. A customer must sign and return the options account agreement
- at or prior to the approval of the account.
  - at or prior to placing the initial trade in the account.
  - within 15 calendar days of placing the initial trade.
  - within 15 calendar days of account approval.
64. The Securities Investor Protection Corporation (SIPC) protects customers from
- market loss.
  - issuer bankruptcy.
  - broker-dealer financial failure.
  - identity theft compromising customer accounts or the broker-dealer.



65. Henry and Jennifer, a married couple, have a net worth of \$800,000, excluding home equity. Their income has been about \$250,000 for several years. Are they eligible to participate in a private placement of securities as accredited investors?
- Yes, because they meet the income test
  - Yes, because they meet the net worth test
  - Yes, because they meet both tests
  - No, because they meet neither test
66. An 80-year-old individual would be least likely to purchase a
- hedge fund.
  - treasury bond.
  - bank CD.
  - money market fund.
67. Passive losses generated by a limited partnership may be used to reduce which of the following?
- Ordinary income only
  - Passive income only
  - Both ordinary income and passive income
  - Capital gains from the sale of appreciated investments only
68. Which of the following statements is TRUE regarding the value of variable contract annuity units?
- It is determined by a formula specified in the annuity contract
  - It is linked to the performance of the insurance company's general account
  - It is fixed at the time of the contract's annuitization
  - It fluctuates based on the performance of separate account assets
69. The "third market" is a marketplace where
- listed securities trade in their primary listing venue.
  - OTC securities trade on a stock exchange.
  - listed securities trade in the OTC market.
  - OTC securities trade in a foreign market.
70. Investors that purchase high quality fixed income investments for retirement income are most concerned with
- credit risk.
  - principal risk.
  - inflation risk.
  - economic risk.
71. What type of order should Martin enter if his objective is to buy 500 shares of Cisco stock as soon as possible at the best price available?
- Market
  - Limit
  - Good-til-cancelled
  - Trailing stop
72. The money supply will tighten based on which of these techniques of monetary policy?
- The Federal Reserve purchases government securities from primary dealers
  - The Federal Reserve reduces the reserve requirement
  - The Federal Reserve increases the discount rate
  - The U.S. Government decreases government spending
73. When must the brokerage firm deliver a customer confirmation to the customer?
- At or before completion of each transaction
  - When an order is placed
  - Upon the customer's request
  - Within three days of trade date

74. The regulatory element of continuing education must be completed on the
- A. first anniversary of initial registration, and every two years thereafter.
  - B. second anniversary of initial registration, and every two years thereafter.
  - C. second anniversary of initial registration, and every third year thereafter.
  - D. third anniversary of initial registration, and every second year thereafter.
75. An individual contacts her financial representative to sell her mutual fund shares. The price she will receive is
- A. the market price at the time the order is entered.
  - B. the next calculated NAV price.
  - C. the asked price at the close of the trading day.
  - D. the next calculated POP price.

## SIE Practice Exam - Chapter Reference

1	Chapter 9	26	Chapter 1	51	Chapter 8
2	Chapter 4	27	Chapter 6	52	Chapter 11
3	Chapter 5	28	Chapter 11	53	Chapter 2
4	Chapter 11	29	Chapter 14	54	Chapter 3
5	Chapter 1	30	Chapter 1	55	Chapter 6
6	Chapter 11	31	Chapter 7	56	Chapter 4
7	Chapter 7	32	Chapter 11	57	Chapter 1
8	Chapter 12	33	Chapter 8	58	Chapter 1
9	Chapter 12	34	Chapter 14	59	Chapter 12
10	Chapter 12	35	Chapter 3	60	Chapter 12
11	Chapter 4	36	Chapter 4	61	Chapter 3
12	Chapter 11	37	Chapter 2	62	Chapter 8
13	Chapter 8	38	Chapter 10	63	Chapter 11
14	Chapter 5	39	Chapter 1	64	Chapter 11
15	Chapter 10	40	Chapter 9	65	Chapter 8
16	Chapter 10	41	Chapter 3	66	Chapter 7
17	Chapter 11	42	Chapter 11	67	Chapter 5
18	Chapter 13	43	Chapter 1	68	Chapter 12
19	Chapter 12	44	Chapter 14	69	Chapter 9
20	Chapter 13	45	Chapter 2	70	Chapter 2
21	Chapter 3	46	Chapter 2	71	Chapter 9
22	Chapter 9	47	Chapter 1	72	Chapter 10
23	Chapter 10	48	Chapter 9	73	Chapter 11
24	Chapter 11	49	Chapter 14	74	Chapter 13
25	Chapter 6	50	Chapter 5	75	Chapter 4

## SIE Practice Exam – Breakdown of Score

Topic	Correct Answers		Total Possible	Percentage
Chapter 1		out of	8	
Chapter 2		out of	5	
Chapter 3		out of	5	
Chapter 4		out of	5	
Chapter 5		out of	4	
Chapter 6		out of	3	
Chapter 7		out of	3	
Chapter 8		out of	5	
Chapter 9		out of	6	
Chapter 10		out of	5	
Chapter 11		out of	12	
Chapter 12		out of	7	
Chapter 13		out of	3	
Chapter 14		out of	4	
<b>Overall</b>		out of	75	

## SIE Practice Exam – Answer Sheet

1. _____	26. _____	51. _____
2. _____	27. _____	52. _____
3. _____	28. _____	53. _____
4. _____	29. _____	54. _____
5. _____	30. _____	55. _____
6. _____	31. _____	56. _____
7. _____	32. _____	57. _____
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9. _____	34. _____	59. _____
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11. _____	36. _____	61. _____
12. _____	37. _____	62. _____
13. _____	38. _____	63. _____
14. _____	39. _____	64. _____
15. _____	40. _____	65. _____
16. _____	41. _____	66. _____
17. _____	42. _____	67. _____
18. _____	43. _____	68. _____
19. _____	44. _____	69. _____
20. _____	45. _____	70. _____
21. _____	46. _____	71. _____
22. _____	47. _____	72. _____
23. _____	48. _____	73. _____
24. _____	49. _____	74. _____
25. _____	50. _____	75. _____

## SIE Practice Exam - Answers & Rationales

1. (A) Acting as an agent, broker-dealers normally charge commissions. Acting as principals, they markup securities sold from their own inventory. See textbook section 9.2.1.2
2. (C) According to the Investment Company Act of 1940, financial statements are required to be sent to shareholders on a semiannual basis at the minimum. See textbook section 4.2.1
3. (B) The credit quality of an exchange-traded note is based on the creditworthiness of the issuer, usually an investment bank that structures the note and sets its terms. Importantly, the credit quality is not based on the underlying portfolio for which the performance of the investment is based upon. See textbook section 5.5.1
4. (B) Customers that open margin accounts must sign a hypothecation agreement to pledge their securities as collateral for loans from the broker-dealer for margin account purchases. The broker-dealer may then rehypothecate the securities to the bank, meaning that they are pledged to the bank as collateral for loans to the broker-dealer for lending to customers. See textbook section 11.2.2.5
5. (B) Rights are short-term instruments that allow a shareholder to purchase the stock below its market price for a period that usually expires after 4-6 weeks. They are issued to existing shareholders in proportion to their ownership interest, so that if exercised, they allow the shareholder to maintain their percentage of ownership, or protect against dilution. Warrants are long term instruments and are often used as sweeteners in corporate bond issues. They do not protect shareholders from dilution. See textbook section 1.1.1.8
6. (D) Cold calls can be made between 8am and 9pm in the customer's time zone. Although it is 7:30pm in California, it is actually 10:30pm in New Jersey because of the difference in time zones. Therefore, this call is prohibited. See textbook section 11.1.1
7. (C) Investors would now be facing reinvestment rate risk, as bonds have been called and it will be difficult to find another investment offering the same return that was available prior to the bond being called. See textbook section 7.2.2
8. (D) Roth contributions are always made with after-tax dollars and are never tax-deductible. See textbook section 12.2.2.1
9. (D) One of the most attractive benefits of a variable annuity is tax-deferred growth during the accumulation period. All dividends, interest, and capital gains earned during the accumulation period may be reinvested tax-free. See textbook section 12.3.3.4
10. (C) There are no federal dollar limits on contributions as long as they do not exceed "the amount necessary to provide for the qualified education expenses of the beneficiary." Many states do impose dollar limits on total contributions made on behalf of one beneficiary. See textbook section 12.4.1.1

11. **(B)** Closed-end company shares trade in the secondary market on exchanges. Their prices are determined by market supply and demand and therefore may be priced at a premium or discount to their NAV. See textbook section 4.3.2.2
12. **(D)** A firm may hold customer mail upon written request. Mail can be held for up to three months. See textbook section 11.5.2
13. **(B)** Restricted persons include immediate family members of restricted persons. Immediate family members under this rule include spouses, siblings, children, parents, and in-laws. Grandparents, aunts, uncles, cousins, and ex-spouses are not considered restricted persons and therefore can freely invest in IPOs. See textbook section 8.3.6
14. **(C)** The order of liquidation in a limited partnership is secured bondholder, unsecured bondholder, limited partner, and lastly general partner. See textbook section 5.2.4
15. **(A)** The healthcare industry is considered a recession-proof (i.e. defensive) sector because it remains constant regardless of the ups and downs of the economy. See textbook section 10.2.5.1
16. **(D)** The discount rate is set by the Fed, and is the rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's lending facility--the discount window. The Fed influences the Fed Funds Rate, but does not actually set the rate - it is set by the market. The prime rate is set by banks. See textbook section 10.3.3.3
17. **(D)** Under Regulation S-P, a privacy notice must be sent to a customer prior to entering into an agreement to engage in business with that client and annually thereafter. See textbook section 11.6.1
18. **(D)** A statutory disqualification occurs if the individual has been convicted a felony or a securities related misdemeanor within the past 10 years. See textbook section 13.3.7
19. **(B)** Investors make after-tax contributions to 529 Plans. The earnings in the plan grow tax-free and any distributions for qualified educational expenses are tax-free at the federal level. Additionally, registered representatives must disclose that there may be certain tax benefits for opening a plan inside your state of residency, for example, tax deductions off of your state income taxes. Conversely, if an individual invests in a 529 Plan outside of their state, their state of residency might make they pay taxes on the growth of the plan. See textbook section 12.4.1.6
20. **(A)** The MSRB creates rules, but does not enforce its own rules. The MSRB rules are enforced by FINRA for securities firms. Within banks, they are enforced by the Federal Reserve, Comptroller of the Currency, and the FDIC. See textbook section 13.1.2
21. **(D)** Ginnie Mae is a government agency that has the explicit backing of the US Government, while Fannie Mae and Freddie Mac have an 'implied' backing of the US government. See textbook section 3.3.1

22. **(D)** Front-running is defined as trading on material non-public information ahead of an imminent block sale in the same or related securities. See textbook section 9.5.7
23. **(D)** This is the framework behind Keynesian economic theory, founded by John Maynard Keynes in the 1930's. See textbook section 10.3.1.2
24. **(D)** In a short margin account, a customer must deposit \$2,000 even if the full value of the transaction is less than \$2,000. This is a FINRA rule separate from the Federal Reserve Board's Regulation T. See textbook section 11.2.2.2
25. **(A)** When an investor buys a call to protect a short stock position, the investor will breakeven when the stock price is equal to the price at which the stock was sold short minus the call premium paid.  $61 - 1.50 = \$59.50$ . The investor is bearish and will make money only when the short position can be covered at a price below this point because of the premium that was paid for the call. See textbook section 6.2.4
26. **(B)** Preferred stock pays dividends if declared by the Board of Directors. Preferred stock generally does not have voting rights. While it has priority over common stock in the event of a corporate liquidation, it does not have priority over corporate debt, including debentures. See textbook section 1.5.1
27. **(A)** The Options Clearing Corporation (OCC) is the world's largest equity derivatives clearing house. As a clearinghouse, the OCC also acts as guarantor, ensuring that the obligations of the contracts it clears are fulfilled. See textbook section 6.6.1
28. **(B)** The social security number of the minor is used, as the minor is the legal owner of the assets. See textbook section 11.3.3.1
29. **(B)** JoeBrokerDealer will be subject to the ban for two years after the contribution was made even if the MFP leaves the firm. JaneBrokerDealer is also subject to the ban for the same period, even though the contribution was made while the MFP was associated with another municipal securities firm. See textbook section 14.4.13.2
30. **(C)** An investor must own stock as of the date of record in order to receive a dividend payment. To own stock by the record date, it must be purchased before the ex-dividend date which is 1 business day before the record date. By purchasing before the ex-date, there are two business days for settlement to occur, in accordance with regular way settlement process. See textbook section 1.7
31. **(A)** Total return on a bond is determined by adding the interest earned during the time period to any capital gain, then dividing this result by the initial purchase price of the bond. See textbook section 7.6.1.2
32. **(B)** Freeriding is the prohibited practice of entering a trade to buy securities, then selling them the following day without having had sufficient funds in the account to pay for the trade. See textbook section 11.2.1.1
33. **(B)** Corporate securities are not exempt from registration under the Securities Act of 1933. They must be SEC registered. See textbook section 8.2.1



34. **(B)** A communication made available to retail investors cannot be classified as institutional. If the number of retail recipients is up to and including 25 persons, it is classified as correspondence. For larger audiences (more than 25 retail persons), it is considered retail communication. See textbook section 14.5.1
35. **(B)** Industrial development bonds are issued by governments for the benefit of private corporations. Revenue streams raised by the facilities pay principal and interest. They are a form of conduit bond. Projects funded by IDRs include parking garages, factories, industrial parks, and sports stadiums. See textbook section 3.4.6.3
36. **(C)** A “breakpoint sale” is a violation that occurs when a registered rep does not disclose to the customer the opportunity to take advantage of a sales charge discount, or “breakpoint”. See textbook section 4.2.5.5
37. **(B)** Accrued interest is measured from the last interest payment date (coupon date) up to but not including the settlement date of the trade. Settlement date is not included in these accrued interest computations because legal ownership of the bond changes on settlement date and this is the date from which the new owner of the bond begins earning his own interest. See textbook section 2.4
38. **(C)** An upward sloping, or normal yield curve, indicates that long-term interest rates are higher than short-term interest rates. This is considered normal as investors holding bonds with long-term maturities demand more interest for taking on the increased risk. See textbook section 10.2.2
39. **(A)** Penny stocks are stocks priced below \$5 per share that do not trade on an exchange. They are frequently thinly traded, which means that there may be no market for the stock if customers want to liquidate their positions. Because of this market risk additional disclosure must be made to all buyers of penny stock. See textbook section 1.2.2
40. **(A)** FINRA rules prohibits broker-dealers from interpositioning a third party between the customer and broker for purposes of avoiding or evading the best execution requirement, or to generate additional fees and commissions. See textbook section 9.5.1.1
41. **(D)** Debt maturing in one year or less trades in the money market. Money market investments are attractive to investors because they offer high liquidity. Many investors access this market through money market mutual funds. See textbook section 3.6
42. **(C)** Firms must verify customer information at least once every 36 months. The point of this requirement is to ensure that the account is still appropriate and the information on file is still accurate. See textbook section 11.1.5
43. **(D)** Stock splits and reverse splits do not change the total value of investors' holdings. For example, if the investor owned 800 shares at \$1 per share before the 1-for-10 reverse split, he/she will own 80 shares at about \$10 per share after the event. See textbook section 1.7.4
44. **(B)** Outside business activity requires the firm to be notified of the full details of the activity. It does not, however, require permission from the firm. Borrowing money from family members does not require permission from a broker dealer. See textbook section 14.4.4

45. **(D)** A bond's current yield is calculated by dividing the annual interest income by the current market price.  $\$50/\$950 = 5.26\%$ . See textbook section 2.2.2
46. **(C)** Because zero coupon bonds pay no interest until maturity, their prices fluctuate more than other types of bonds in the secondary market. Variable bonds have little price fluctuation because their rates adjust to current interest rates. Also, long-term bonds are generally more volatile than short-term bonds. See textbook section 2.3.1
47. **(B)** Common stock is purchased by investors for its capital appreciation potential. Historically it has kept pace with the rate of inflation and is used to meet growth objectives. It is most junior in terms of claims to assets in a corporate liquidation, and does not protect investors from investment risk. See textbook section 1.1.1.5
48. **(A)** Nasdaq is a negotiated market where market-makers negotiate a price with other customers and broker-dealers. See textbook section 9.3.3.1
49. **(C)** A Currency Transaction Report (CTR) must be filed with FINCEN within 15 days for any cash deposits in excess of \$10,000 in a single day. See textbook section 14.3.1
50. **(C)** REITs can avoid double taxation on profits passed through as dividends to shareholders by concentrating their investments in real estate. At least 75% of total assets must be in real estate, and at least 75% of gross income must be derived from real estate. Also, they must pass through at least 90% of their gains to shareholders. See textbook section 5.1.1
51. **(B)** QIBs generally are institutions or other entities that, in aggregate, own and invest (on a discretionary basis) at least \$100 million in securities. Under Rule 144A, QIBs can freely trade private placements among themselves. See textbook section 8.2.5
52. **(A)** Under a Tenancy in Common (or Joints Tenants in Common account), each owner has a specified percentage of the entire account. At each owner's death, his/her portion of the account is liquidated and distributed to his/her beneficiary. See textbook section 11.3.2.1
53. **(C)** When a bond is trading at a discount (market price lower than par value), the YTC will be the highest yield, then YTM, then CY, and the nominal yield the lowest yield. See textbook section 2.2.5
54. **(C)** Interest income received by holders of municipal bonds is generally exempt from federal income tax and from state and local income taxes for residents of the state in which debt is issued. See textbook section 3.4.6
55. **(D)** Short options positions have obligations that must be performed if the holder exercises the contract. Put writers have the obligation to buy stock at exercise when the put holders exercise the right to sell at the strike price. See textbook section 6.1
56. **(B)** ETFs are not redeemed by the issuer. Instead, investors liquidate shares by selling them on an exchange. See textbook section 4.5.1
57. **(D)** For regular way trades in equities, the ex-dividend date is one business days before the record date. See textbook section 1.7

58. (C) A stock split doesn't affect the total value of stock owned. In this example, the shares are worth \$9,000 before and after the split. But three times as many shares are owned. To calculate the new number of shares, multiply the shares by the first number of the split and divide by the second number of the split:  $100 \text{ shares} \times 3 / 1 = 300 \text{ shares}$ . Because the \$9,000 is now divided among 300 shares, the new stock price will be \$30 per share. See textbook section 1.7.4
59. (C) Only employee deferrals, not employer contributions, may go into the Roth account. All employer contributions go into the regular 401(k). See textbook section 12.1.1.3
60. (C) Roth IRAs are not available to everyone with earned income. Instead, only individuals who earn below a certain threshold can contribute to a Roth. In contrast, any investor with earned income is eligible to invest in a traditional IRA. See textbook section 12.2.2
61. (C) Unsecured bonds are also known as debentures. See textbook section 3.1.2.2
62. (C) The SEC never approves or disapproves of securities. Instead, the SEC clears the distribution for public sale. See textbook section 8.1
63. (D) The options account agreement must be signed and returned within 15 days of account approval. See textbook section 11.2.3
64. (C) SIPC coverage protects customers from financial loss in the event of the financial failure of a broker-dealer. It protects each separate customer for up to \$500,000 total, but no more than \$250,000 in cash. Importantly, SIPC does not protect against market losses. See textbook section 1.6.3
65. (D) Under Regulation D, for a married couple to be accredited they must have a net worth, excluding home equity, of \$1 million. The income test for married persons is a joint income of \$300,000 in each of the two most recent years. This couple meets neither test. See textbook section 8.2.3
66. (A) An individual who is retired, or in the later stages of life, would not be likely to make an investment that could result in the complete loss of their capital, or one that would require a long-term investment horizon. See textbook section 7.3.1
67. (B) Passive losses may be used to offset earnings from other passive sources only. They cannot be used to offset investment income or ordinary income. See textbook section 5.2
68. (D) Annuity units in variable annuity contracts fluctuate in value based on the performance of separate account assets. The number of units is fixed but their value continues to fluctuate. See textbook section 12.3.3.2
69. (C) The “third market” is where exchange listed securities trade in the OTC market, typically handled by a broker-dealer through its own trading system. See textbook section 9.3.5.1
70. (C) Inflation risk is a major concern for investors who hold portfolios of fixed income investments for funding retirement income. As inflation increases, the purchasing power of their fixed coupon will fall. See textbook section 2.3.4

71. **(A)** A market order gives the broker instructions to buy or sell a specified quantity of securities immediately, as soon as the order reaches the market. A full execution of the order is assured but the execution price is unknown. See textbook section 9.4.2
72. **(C)** Under monetary policy, an increase to either the reserve requirement or the discount rate will deter lending, which will result in a tightening of the money supply. A decrease in spending by the U.S. government will also reduce the amount of money, but government spending is a tool of fiscal policy. When the Fed purchases securities in the open market more money goes into circulation, so this would ease the money supply. See textbook section 10.3.3.3
73. **(A)** Confirmations must be delivered to customers at or before completion of each transaction (aka by settlement). See textbook section 11.5.2
74. **(C)** The regulatory element of continuing education must be completed on the second anniversary of initial registration, and every third year thereafter. See textbook section 13.3.8.1
75. **(B)** Investors sell their shares at the net asset value price next calculated after the order is received, which is the concept of forward pricing. See textbook section 4.2.5.1