



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

FINRA General Securities Representative Examination (GS)

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### QUESTION 1

The initial Federal Reserve Bank margin requirement is set at 60% and Bubba purchases 100 shares of XYZ at \$100 per share. He deposits \$6,000 of the \$10,000 purchase price in his account. If XYZ increases in value to \$150 per share, how much excess equity would Bubba have in his account?

- A. \$1,000
- B. \$1,500
- C. \$2,000
- D. \$3,000

Correct Answer: C

\$2,000. Bubba started with \$6,000 of equity and a debit balance of \$4,000. The market value of his XYZ stock increased by \$5,000 (\$15,000 - \$10,000). Therefore, his equity increased to \$11,000. Since Bubba only needs 60% equity, his Reg T requirement is \$9,000 (\$15,000 x 60%). His equity exceeds the requirement by \$2,000.

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### QUESTION 2

What rate of return takes into consideration appreciation or depreciation in market value relating to the par value of a debt security?

- A. current yield
- B. yield to maturity
- C. nominal yield
- D. basis yield

Correct Answer: B

yield to maturity. The premium or discount in the security price relative to par value is considered when computing the yield to maturity.

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### QUESTION 3

Bubba buys one XYZ November 65 call at \$3 and one XYZ November 65 put at \$2. XYZ is trading at \$72. The put expires and the call is closed at its intrinsic value. What is the resulting profit?

- A. \$200
- B. \$300
- C. \$500
- D. \$700



Correct Answer: A

\$200. Since XYZ is trading at 72, a November 65 call has an intrinsic value of \$700. A sale at that value compared to the cost of \$300 is a profit of \$400. Subtract the loss of \$200 on the expired put to obtain the profit of \$200.

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#### QUESTION 4

Reinvestment of dividends and distributions from investment company shares:

- A. results in compounding of shares, which can be an important factor for investment growth
- B. permits deferment of all federal income taxes on dividends and distributions until the investment is liquidated
- C. makes possible the purchase of fund shares at a price below net asset value
- D. all of the above

Correct Answer: A

results in compounding of shares, which can be an important factor for investment growth. Reinvesting dividends and capital gains increases the number of shares owned. Occasionally, these programs permit purchases at net asset value, but never below that price. Shareholders do not avoid current tax liability on the amount of dividends and capital gains reinvested.

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#### QUESTION 5

Bubba held one XYZ July 30 listed call option when XYZ split 2 for 1. What is the resulting position, Bubba has on the Option Clearing Corporation's record?

- A. long one XYZ July 30 call
- B. long one XYZ July 30 call and short one XYZ July 30 call
- C. long two XYZ July 30 calls
- D. long two XYZ July 15 calls

Correct Answer: D

long two XYZ July 15 calls. Double the number of contracts and half the strike price. This is similar to XYZ shareholders doubling the number of shares they hold at the lower price.

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