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**QUESTION 1**

How much money is a concession of $\frac{3}{8}$ worth for one municipal bond?

- A. \$0.375
- B. \$3.75
- C. \$37.50
- D. \$375.00

Correct Answer: B

\$3.75. Three-eighths of a \$1,000 bond with a par price of 100.00 equals \$3.75.

QUESTION 2

Which of the following have a stated interest rate on the face of the certificates?

- A. treasury bills
- B. treasury notes
- C. treasury bonds
- D. both B and C

Correct Answer: D

both B and C. Treasury notes and treasury bonds have stated interest rates. Treasury bills are always sold at a discount to the face amount payable at maturity.

QUESTION 3

Prospective bidders for a municipal bond being issued should consult what document for relevant procedures?

- A. the Eastern account agreement
- B. the official notice of sale
- C. the offering circular
- D. the SEC Registration Statement

Correct Answer: B

the official notice of sale. All bid requirements are found in the official notice of sale.

**QUESTION 4**

Bubba buys a municipal bond at 102 and holds it ten years to maturity. For tax purposes, how is that premium treated?

- A. recorded as a long-term capital loss
- B. an ordinary loss taken as a deduction from taxable income
- C. amortized over the life of the bond resulting in no loss at maturity
- D. carried forward as a premium loss applied against profits realized on future municipal securities

Correct Answer: C

amortized over the life of the bond resulting in no loss at maturity. For tax purposes, premiums are amortized over the life of the bond. Some amount is taken each year.

QUESTION 5

Service charges by a FINRA dealer for transfer and safekeeping of customer securities held in street name:

- A. may not be levied under FINRA Conduct Rules
- B. may not be levied unless there is no trading in the account for more than six months
- C. may be levied only if the security has a value of less than \$5,000
- D. may be levied only if the charge is fair, reasonable, and non-discriminatory

Correct Answer: D

may be levied only if the charge is fair, reasonable, and non-discriminatory. This is the standard in the FINRA rules.

QUESTION 6

A dealer buys 100 shares of XYZ common, which is an actively traded stock, at 23.50. Three days later, when XYZ common is quoted at 19.50 - 19.75, he sells the 100 shares to a customer. The basis for the dealer's markup is:

- A. 10 5/8
- B. 19 7/8
- C. 23 1/2
- D. 5% above cost

Correct Answer: B

19 7/8. The markup is always based on the current market price, not upon cost. Therefore, the markup is based on the offering side of the current quotation.

**QUESTION 7**

When a member firm buys or sells securities directly as principal with a public customer, it is acting as:

- A. a dealer
- B. a broker
- C. an agent
- D. none of the above

Correct Answer: A

a dealer. When a firm does business directly with a customer, it is acting as a dealer. When it represents a customer, it is acting as a broker.

QUESTION 8

Which securities do not receive dividends?

- A. ADRs
- B. warrants
- C. common stock
- D. preferred stock

Correct Answer: B

warrants. All of the other choices receive dividends if they are declared. But only warrants are a specific security that never pays dividends.

QUESTION 9

Which of the following is a benefit of Section 8 low-income housing partnerships?

- A. high, reliable income
- B. large deductions
- C. potential for capital appreciation
- D. low risk

Correct Answer: D

low risk. The low risk is a consequence of the government guarantee or subsidy.

QUESTION 10



Under the Investment Company Act of 1940, what is the minimum net worth of a registered investment company?

- A. \$100,000
- B. \$50,000
- C. \$25,000
- D. \$5,000

Correct Answer: A

\$100,000. This was a considerable amount of money in 1940.

QUESTION 11

An investment company acting as a conduit in the distribution of net investment income, pursuant to IRS rules, is called:

- A. balanced
- B. diversified
- C. regulated
- D. dual-purpose

Correct Answer: C

regulated. The term "regulated" refers to tax status under Subchapter M of the Internal Revenue Code. This simply means that if a mutual fund or other investment company qualifies for regulated status, the threat of taxation at multiple levels is eliminated.

QUESTION 12

What is the possible reward for investing in raw land?

- A. deferred income
- B. large deductions
- C. potential capital appreciation
- D. lack of investment risk

Correct Answer: C

potential capital appreciation. This is the only correct choice. Any income is not deferred, raw land cannot be depreciated for a large deduction, and there is substantial risk.

QUESTION 13



In a firm commitment offering, any shares that are not sold are:

- A. returned to the issuing corporation
- B. listed in the over-the-counter market
- C. transferred to treasury stock
- D. owned by the members of the syndicate

Correct Answer: D

owned by the members of the syndicate. In a firm commitment the underwriter buys the securities from the issuing company. If they don't sell to the public, they are owned by the underwriters.

QUESTION 14

Which of the following has the greatest risk?

- A. a guaranteed corporate bond
- B. a GNMA bond
- C. a Series H bond
- D. a treasury bill

Correct Answer: A

a guaranteed corporate bond. All of the other securities are obligations of the US government, which is considered to have minimal or no risk.

QUESTION 15

A trust instrument drawn pursuant to the Trust Indenture Act of 1939 sets forth which of the following?

- A. the rights of stockholders
- B. the duties of the trustee
- C. the obligations of the issuing corporation
- D. both B and C

Correct Answer: D

both B and C. A trust indenture does both of these but does not define the rights of stockholders.