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QUESTION 1

Call loans made by banks to broker/dealers are generally for the purpose of which of the following?

- A. expansion of office facilities
- B. meeting operating expenses
- C. carrying margin accounts
- D. financing securities held in inventory

Correct Answer: C

carrying margin accounts. A call loan is made to brokers who use securities as collateral. They are usually made to finance the debit balances in margin accounts.

QUESTION 2

Which of the following forms of underwriting is least likely for an offering of municipal bonds?

- A. negotiated
- B. competitive bid
- C. firm commitment
- D. best efforts

Correct Answer: D

best efforts. A best efforts deal least likely for a municipal securities offering. It is most often associated with small corporate stock or limited partnership offerings. Municipal securities are usually competitive bid or negotiated. Both of these types are firm commitment.

QUESTION 3

Regulation T is set at 50%. Bubba's account contains long positions in the following securities with the prices listed: 100 ABC \$30 200 XYZ \$70 200 QBB \$40 200 KKK \$25 Total market value = \$30,000 Debit balance in the account = \$12,000 Net equity balance of the account = \$18,000

What is the buying power in Bubba's account?

- A. \$3,000
- B. \$6,000
- C. \$11,000
- D. \$0



Correct Answer: B

\$6,000. Divide Bubba's excess equity by the Reg T margin requirement of 50%.

QUESTION 4

Which are the primary considerations in evaluating the worth of a limited partnership?

- A. the size of the tax deductions
- B. the cost of assets
- C. the adequacy of funding
- D. both B and C

Correct Answer: D

both B and C. The size of tax deductions is not a "primary" consideration.

QUESTION 5

Bubba buys one XYZ June 40 call for \$1,000 and sells one XYZ March 40 call for \$600. Subsequently, the June call is closed for \$1,200 and the March call for \$900.

What is Bubba's net result?

- A. \$100 loss
- B. \$100 profit
- C. \$200 loss
- D. \$200 profit

Correct Answer: A

\$100 profit. The long position in the June call is a \$200 profit (\$1,200 - \$1,000). The short position in the March call is a \$300 loss (\$900 - \$600). Combining the gain and loss results in a \$100 profit.

QUESTION 6

Big Guns Municipal Bond Dealer Corporation buys 100M of 7% 20-year GO bonds at par. The bonds are marked up and immediately re-offered for sale. Which of the following re-offering prices would probably be deemed excessive?

- A. 6.8% net
- B. 6.9% less 0.5
- C. \$100.75



D. 5.00% net

Correct Answer: D

5.00% net. The other quotes indicate moderate markups over cost. A quote of 5% net indicates a large markup and a price not "reasonably related to the market". The dollar price would be about \$125, a 25% markup over the dealer's cost.

QUESTION 7

On which of the following is depreciation permitted?

- A. rental property whose value is declining
- B. residential property not used for business
- C. property whose maintenance exceeds the investment credit
- D. equipment subject to recapture

Correct Answer: B

residential property not used for business. Depreciation is only permitted on income-producing property.

QUESTION 8

Which of the following is true of treasury stock?

- A. it has voting rights
- B. it is entitled to receive dividends
- C. it is stock that has not been issued
- D. it is stock that has been reacquired by the issuer

Correct Answer: D

it is stock that has been reacquired by the issuer. Treasury stock has no voting rights and is not entitled to receive dividends. The shares have been issued but are no longer outstanding in the market.

QUESTION 9

Bubba buys a US treasury bond. The interest he earns is:

- A. subject to federal and state income tax
- B. exempt from federal and state income tax
- C. subject to state income tax but exempt from federal income tax



D. subject to federal income tax but exempt from state income tax

Correct Answer: D

subject to federal income tax but exempt from state income tax. The interest on US government securities is taxed by the US government but not by state governments. The opposite is true of bonds issued by a state, which are exempt from federal tax but subject to state taxes -except for taxes of the state that issues them.

QUESTION 10

Under which of the following conditions are homeowners most likely to refinance existing mortgages?

- A. when interest rates rise
- B. when interest rates fall
- C. when interest rates are stable
- D. when the yield curve is inverted

Correct Answer: B

when interest rates fall. Homeowners are most likely to refinance when rates are lower than the past.

QUESTION 11

Revenue bonds are least likely to provide constructions funds for:

- A. a toll highway
- B. an airport
- C. a public school
- D. a pollution control facility

Correct Answer: C

a public school. Schools are typically financed by general obligation bonds. The other choices are examples of revenue bonds.

QUESTION 12

Bubba sells 100 shares of XYZ short at \$58 and buys 1 XYZ Mar 60 Call at \$3. What is the customer's maximum loss?

- A. \$500
- B. \$100
- C. unlimited



D. \$5,500

Correct Answer: A

\$500. Bubba sold short at \$58. The call with a strike price of 60, gives him the right to buy back the stock at \$60. If the stock rises, the call can be used to limit the loss to 2 points. Bubba can lose \$200 on the stock. Bubba also paid a \$300 premium. Loss potential is \$500.

QUESTION 13

Which of the following is true about option prices?

- A. premiums on options for listed stocks are usually greater than on unlisted stocks
- B. premiums on options of higher-priced stocks are usually greater than on lower-priced stocks
- C. premiums on options of well-known companies are usually larger than on lesser-known companies
- D. premiums on options of volatile stocks are usually larger than on less volatile stocks

Correct Answer: D

premiums on options of volatile stocks are usually larger than on less volatile stocks. The likelihood of exercise increases with the volatility of a stock. Therefore, a higher premium is demanded.

QUESTION 14

For what time period does a Form 144 remain in effect?

- A. 30 days
- B. 60 days
- C. 90 days
- D. one year

Correct Answer: C

90 days. To avoid a forced sale, stock may be sold under Rule 144 over a 90-day period.

QUESTION 15

Which of the following does not appear in the official notice of sale?

- A. method and place of settlement
- B. denominations and registration privileges
- C. an offering scale of serial maturates



D. amount of good faith check required

Correct Answer: C

an offering scale of serial maturates. The scale is set by the successful bidder.

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