

DUMPS ARENA

General Securities Representative Qualification Examination (GS)

FINRA Series-7

Version Demo

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QUESTION NO: 1

What percentage of maintenance charges and debt service are covered by the rate covenant of a revenue bond issued to finance a municipal toll road?

- A. 75%
- B. 100%
- C. 120%
- D. 150%

ANSWER: C**Explanation:**

120%. The toll facility usually sets rates to cover 120% of maintenance and debt service.

QUESTION NO: 2

A syndicate manager has just been informed that its bid has been accepted and all syndicate members are duly notified. Public information on the award will be most quickly available from:

- A. the Blue List
- B. the daily Bond Buyer
- C. the Wall Street Journal
- D. Munifacts

ANSWER: D**Explanation:**

Munifacts. This is a wire service provided by the daily Bond Buyer. It displays information on municipal traders, underwriters, and other participants in the fixed income markets.

QUESTION NO: 3

In early September, Bubba buys 100 shares of XYZ for \$83 per share and simultaneously writes one XYZ March 90 call for \$4.

What is the price for XYZ stock at which Bubba will breakeven?

- A. \$94

- B. \$87
- C. \$86
- D. \$79

ANSWER: D

Explanation:

\$79. Bubba's breakeven is his cost of the stock less the premium he received (\$83 - \$4).

QUESTION NO: 4

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

ANSWER: D

Explanation:

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 NO: 5

The net investment income of an open-end investment company represents:

- A. net income from dividends and interest paid on securities in the fund's portfolio
- B. net gains on sales of portfolio securities
- C. dividends, interest, and net gains on sales of securities
- D. net profits from the investment company operation

ANSWER: A

Explanation:

net income from dividends and interest paid on securities in the fund's portfolio. Net investment income is dividends and interest but not capital gains.

QUESTION NO: 6

Bubba buys a ten-year municipal and at 102 and sells it five years later at 101.

What is tax treatment?

- A. a \$10 long-term capital loss is realized
- B. the \$10 loss is applied as a reduction against ordinary income
- C. no capital loss or income deduction is realized
- D. the \$10 loss is applied against future profits in municipal securities

ANSWER: C**Explanation:**

no capital loss or income deduction is realized. The \$20 premium is amortized over the ten-year life of the bond. After five years, half of the premium has been written down. The remaining premium is the same as the premium received upon selling the bond. The sale at 101 results in no loss or gain.

QUESTION NO: 7

An ERISA benefits plan qualified under Section 401(a) of the Internal Revenue Code may:

- A. purchase any IPO security provided the plan is not sponsored solely by a broker/dealer
- B. apply for an exemption
- C. only purchase securities rated "A" or better
- D. purchase only securities issued by the state or federal government

ANSWER: A**Explanation:**

purchase any IPO security provided the plan is not sponsored solely by a broker/dealer. An ERISA plan that is qualified under Section 401(a) may purchase any IPO security provided that the plan sponsor is not a broker/dealer.

QUESTION NO: 8

Which of the following does not decrease basis?

- A. cash or property paid out
- B. depletion of real property
- C. losses
- D. income from extraordinary sources

ANSWER: D**Explanation:**

income from extraordinary sources. Single events, such as the sale of property, do not affect basis.

QUESTION NO: 9

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

ANSWER: D**Explanation:**

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

QUESTION NO: 10

An issuer is most likely to request an investment letter from the purchaser in connection with which of the offerings?

- A. a hot issue
- B. a mutual fund
- C. a private placement
- D. an exempt security

ANSWER: C**Explanation:**

a private placement. Normally, private placements are conducted with an investment letter.

QUESTION NO: 11

Bubba has no existing positions in his account and writes 1 XYZ July 60 put and 1 XYZ July 60 call.

What is this position called?

- A. short combination

- B. long combination
- C. long straddle
- D. short straddle

ANSWER: D

Explanation:

short straddle. A straddle is a put and call on the same stock with the same strike price and expiration date.

QUESTION NO: 12

A 5% markup policy applies to:

- A. riskless transactions
- B. primary distributions
- C. registered secondaries
- D. mutual funds

ANSWER: A

Explanation:

riskless transactions. The markup policy applies to everything except securities sold under a prospectus, which is the case with the other choices.

QUESTION NO: 13

A corporate bond is quoted as having a net change in value of plus one point.

By how much did the bond price increase?

- A. \$1,000
- B. \$100
- C. \$10
- D. \$1

ANSWER: C

Explanation:

\$10. A point is 1% and bonds are priced in \$1,000 increments. Multiplying \$1,000 by 1% equals \$10.

QUESTION NO: 14

What is the loan value on a call option held in a customer's margin account?

- A. 0
- B. 50%
- C. 30%
- D. the compliment of the FRB initial margin requirement for listed stocks

ANSWER: A**Explanation:**

0. Options do not have loan value, except for long-term LEAPS.

QUESTION NO: 15

The Bubba Fund is a load mutual fund that offers a reinvestment plan.

What does this mean?

- A. purchasers of fund shares must agree to make regular investments over a period of years
- B. income, dividend, and capital gain distributions may be automatically used to purchase new shares of the fund
- C. holders of fund shares are permitted to regularly purchase additional shares at the bid price
- D. no federal income taxes are paid on dividends and capital gain distributions from the fund

ANSWER: B**Explanation:**

income, dividend, and capital gain distributions may be automatically used to purchase new shares of the fund. The new purchases are at the ask price, not the bid price.