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QUESTION 1

A short sale can be made in which of the following types of accounts?

- A. special cash account
- B. a custodian account
- C. margin account
- D. special memorandum account

Correct Answer: C

margin account. A margin account is required for short sales.

QUESTION 2

Bubba Corporation has a registered public offering of 500,000 shares at \$36. Of these, 300,000 shares were authorized by unissued and 200,000 shares were sold on behalf of an affiliated person. What is evident from this information?

- A. the entire proceeds of the offering are a primary offering accruing to the corporation
- B. 300,000 shares are identified as a primary distribution
- C. 60% of the proceeds are paid to the corporation and the balance accrues to the affiliated person
- D. both B and C

Correct Answer: D

both B and C. The 200,000 shares are sold on behalf of the affiliated person so the proceeds go to that individual. Only the other 300,000 shares are a primary offering.

QUESTION 3

Bubba Securities, Inc. offers 3,000,000 shares of Top Notch Manufacturing Corporation common stock at \$27 per share. The next day an advertisement appears in the Wall Street Journal announcing the offering and listing the names of

some of the underwriting firms.

This ad is commonly referred to as a:

- A. public offering
- B. tombstone ad
- C. sales directive
- D. syndicate announcement

Correct Answer: B

tombstone ad. Tombstone ads are used to announce new issues. They do not offer to buy or sell securities. They are informational only.

QUESTION 4

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

Correct Answer: B

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.

QUESTION 5

When does a call option provide the most value to its holder?

- A. when the underlying stock is extremely volatile
- B. in the month prior to its expiration
- C. when there is a large open interest in that class of option
- D. when the underlying stock price is rising

Correct Answer: D

when the underlying stock price is rising. That's why the holder of this option wants to have a right to "call" the stock.

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