

FINRA-SERIES-7^{Q&As}

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QUESTION 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%

Correct Answer: C

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

QUESTION 2

A mutual fund custodian is paid according to which of the following specifications when receiving deposits from a shareholder's reinvestment plan?

- A. a commission for each share purchased
- B. a percentage of the sales charge
- C. a processing fee
- D. a percentage of the fund's net asset value

Correct Answer: C

a processing fee. Many custodian banks charge the custodian fee to the mutual fund rather than the individual shareholder.

QUESTION 3

Which of the following is not an investment company within the terms of the Investment Company Act of 1940?

- A. a holding company dealing in mineral leaseholds
- B. a face-amount certificate company
- C. a unit investment trust company
- D. a management company

Correct Answer: A

a holding company dealing in mineral leaseholds. The other choices are the three classifications of investment companies under the 1940 act.

QUESTION 4

According to FINRA Conduct Rules, a party judged guilty of a rule infraction by the District Business Conduct Committee may then appeal to:

- A. the SEC
- B. the FINRA Board of Governors
- C. the public court system
- D. the FINRA Board of Arbitration

Correct Answer: B

the FINRA Board of Governors. The first appeal is to the Board of Governors, then to the SEC, and then to the federal courts.

QUESTION 5

The FINRA Conduct Rules permit a transaction made "seller's option" to be delivered earlier than the expiration of the contract if:

- A. the buyer is given one-day notice in writing
- B. the seller is located in New York City
- C. the client requests it
- D. the buyer is a non-clearing member

Correct Answer: A

the buyer is given one-day notice in writing. A contract made on a "seller's option" may be terminated by the seller at an earlier date, provided that he gives the buyer one-day notice.

QUESTION 6

A basis point is:

- A. 0.10%
- B. 0.01%
- C. 1.00%
- D. 0.001%

Correct Answer: B

0.01%. A basis point is one-hundredth of a point. Since a point is 1%, a basis point is 0.01%. A bond price change of

one basis point is ten cents ($\$1,000 \times 0.01\%$).

QUESTION 7

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 ($\$15,000 \times 60\%$). His equity exceeds the requirement by \$2,000.

QUESTION 8

Which of the following does not appear in a municipal syndicate letter to underwriters?

- A. the specific bid and offering terms of the issue
- B. the amount of each member's participation
- C. the extent of the manager's authority in directing the offering
- D. the duration of the syndicate account

Correct Answer: A

the specific bid and offering terms of the issue. The bid and offering terms are determined after the syndicate letter to underwriters.

QUESTION 9

The Securities Act of 1933 provides for:

- A. extension of credit in the securities industry
- B. establishment of the Securities and Exchange Commission
- C. regulation of new issues of securities
- D. all of the above

Correct Answer: C

regulation of new issues of securities. The first two choices are covered in the Securities and Exchange Act of 1934.

QUESTION 10

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 11

Bubba buys one XYZ September 50 call at \$7 and sells one XYZ September 60 call at \$3. At that time, XYZ stock is at \$55. Bubba has no other stock positions. At what must XYZ trade for Bubba to break even?

- A. \$54
- B. \$55
- C. \$57
- D. \$60

Correct Answer: A

\$54. Bubba's position is a bullish spread. The breakeven is determined by adding the debit amount to the lower strike price. The debit amount is \$4 ($\$7 - \3). Adding that to \$50 equals \$54.

QUESTION 12

A tax-free rollover of assets between qualified retirement plans for the benefit of a specific individual is permitted so long as it is accomplished within:

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

Correct Answer: B

60 days. ERISA permits 60 days for rollovers.

QUESTION 13

Which of the following items is not deducted to determine a corporation's net income?

- A. taxes
- B. dividends
- C. interest
- D. all of the above

Correct Answer: B

dividends. Net income is determined before dividends.

QUESTION 14

Which of the following is not in the subscription agreement for a limited partnership offering?

- A. identification of the limited partners
- B. qualification of the limited partners for the subscription
- C. granting of power of attorney to the limited partners
- D. a record of sales of the partnership interests

Correct Answer: C

granting of power of attorney to the limited partners. The other three choices are in the subscription agreement. Power of attorney is granted to the general partner, not the limited partners.

QUESTION 15

Under an initial federal requirement of 70% equity, Bubba purchases 100 shares of XYZ at \$40 per share and wishes to satisfy the margin call by delivering another listed security into his account. He may do so by depositing stocks with a market value of:

- A. \$9,333
- B. \$5,714
- C. 4,000
- D. \$2,800

Correct Answer: A

\$9,333. If Bubba were depositing cash, he would need \$2,800 ($70\% \times \$4,000$). Since he is depositing stock, he would have to deposit enough with loan value of \$2,800. To arrive at this, divide \$2,800 by the 30% loan value to obtain \$9,333.

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