1. Debt securities issued by the Federal Home Loan Bank, the Student Loan Marketing Association and the Government National Mortgage Association are known as

- **A.** agency bonds.
- **B.** Treasury bonds.
- **C.** municipal bonds.
- **D.** organizational bonds.

2. Megan bought 200 shares of stock at a price of $10 a share. She used her 70% margin account to make the purchase. Megan sold her stock after a year for $12 a share. Ignoring margin interest and trading costs, what is Megan's return on investor's equity for this investment?

- **A.** 67%
- **B.** 10%
- **C.** 14%
- **D.** 29%

3. Which one of the following statements concerning the tax treatment of municipal bonds is correct?

- **A.** The interest income on municipal bonds is subject to federal income tax.
- **B.** The capital gain realized on the sale of a municipal bond is tax – free income.
- **C.** Interest income on a municipal bond is usually exempt from state and local income taxes if the bond is issued by the state or locality in which the investor resides.
- **D.** Municipal bonds receive no special income tax treatment.

4. Which one of the following variables has the greatest effect on bond prices?

- **A.** economic growth
- **B.** interest rates
- **C.** stock market returns
- **D.** inflation
5. Which one of the following statements about common stock is correct?

- **A.** Common stock typically provides higher levels of current income than do similar grade corporate bonds.
- **B.** Each share of common stock of a given class entitles the holder to an equal ownership position and an equal vote in the corporation.
- **C.** Each share of stock has a specified maturity date.
- **D.** Common stock gives stockholders first title to a share of the company's earnings, prior to other corporate obligations.

6. You are given the following information on a company.

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<tr>
<td>Total Book Value</td>
<td>$1,600,000</td>
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<tr>
<td>Total Market Value</td>
<td>$12,804,000</td>
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<tr>
<td>Common shares</td>
<td>600,000</td>
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Which one of the following statements is correct based on the information provided?

- **A.** The par value is $2.67 per share.
- **B.** The market price is $21.34 per share.
- **C.** The book value is $21.34 per share.
- **D.** The investment value is $2.67 per share.

7. Maintenance margin is the

- **A.** minimum amount of equity that an investor can have to avoid a margin call.
- **B.** amount of additional funds that need to be added to an account to meet minimal equity requirements.
- **C.** minimum amount of loan that can be used for margin trading.
- **D.** initial amount of equity required for a margin purchase.
8. Which of the following is true regarding Investment Banks?

- **A.** Under the Glass - Steagal act, commercial banks were allowed to operate as Investment banks.
- **B.** As of 2010, stand alone Investment banks are numerous.
- **C.** When Glass - Steagal was repealed in 1999, commercial banks and Investment banks had to be separate entities.
- **D.** As a result of the financial crisis of 2008, all stand alone Investment banks either failed, were merged into commercial banks, or became commercial banks.

9. Stock which has been issued and subsequently reacquired by the issuing corporation is called

- **A.** letter stock.
- **B.** book stock.
- **C.** classified stock.
- **D.** treasury stock.

10. In a severe recession, the major source of risk faced by investors who purchase corporate bonds is

- **A.** purchasing power risk.
- **B.** interest rate risk.
- **C.** default risk.
- **D.** liquidity risk.

11. The stock listing for a company shows a P/E of 18, a dividend yield of 2.4% and a closing price of $23.76. What is the amount of dividends per share?

- **A.** $1.32
- **B.** $0.03
- **C.** $1.03
- **D.** $0.57
12. The price an individual investor will pay to purchase a stock in the OTC market is the

○ A. ask price.
○ B. spread.
○ C. bid price.
○ D. broker price.

13. Which one of the following is a major advantage of margin trading?

○ A. increase in potential profits on a percentage basis
○ B. interest free loans
○ C. increase in potential diversification
○ D. possibility of increased gains on a dollar basis

14. The practice of bundling mortgages or other types of loans into pools and selling pieces of the pool as bond-like instruments to investors is known as

○ A. privatization.
○ B. securitization.
○ C. fractionalization.
○ D. collateralization.

15. If a bond rating moves from a BB to a BBB rating

○ A. the bond will still be classified as junk.
○ B. it must also move from a Ba to a Baa rating.
○ C. the market yield on the bond will rise.
○ D. the market price of the bond will rise.
16. Which of the following is a good reason to invest in convertible bonds?

- A. They offer predictable income and a chance to profit from an increase in the stock price.
- B. They tend to be issued by stable, low-risk companies.
- C. They often have higher than normal coupon rates.
- D. They offer protection against rising interest rates.

17. A bond quoted at a price of 101.2

- A. is a deep discount bond.
- B. has a coupon rate that exceeds the market rate.
- C. yields 12%.
- D. yields 10.12%.

18. All of the following are classified as non-bank financial intermediaries except

- A. stock brokerages.
- B. investment banks.
- C. insurance companies.
- D. hedge funds.

19. Short-term securities are bought and sold in the

- A. money market.
- B. primary market.
- C. stock market.
- D. capital market.
20. Westlake Industries has total assets of $42.5 million, total debt of $29.3 million, and $2.4 million of 6% preferred stock outstanding. If the company has 250,000 shares of common stock outstanding, its book value per share would be

- **A.** $52.80.
- **B.** $33.60.
- **C.** $43.20.
- **D.** $32.33.

21. The purchase of stock with cash in the hope of earning a capital gain is known as taking a

- **A.** long position in the stock.
- **B.** short position in the stock.
- **C.** short, margined position in the stock.
- **D.** long, margined position in the stock.

22. Assume the foreign exchange rate for the euro was US $1.00 = .70 euro last month. This month, the exchange rate is US $1.00 = .72 euro. All things equal, the dollar value of European stocks

- **A.** decreased.
- **B.** would vary depending on the country.
- **C.** increased.
- **D.** stayed the same.

23. Stocks and bonds are traded in

- **A.** capital markets.
- **B.** money markets.
- **C.** federal trade commissions.
- **D.** securities and exchange commissions.
24. Tiffany owned 1000 shares of GIA stock which was selling for $1.50 per share when the company declared a 1 for 10 reverse split. After the split, Tiffany owned

- A. 10,000 shares worth approximately $15 per share.
- B. 100 shares worth approximately $15 per share.
- C. 10,000 shares worth approximately $0.15 per share.
- D. 100 shares worth approximately $1.50 per share.

25. Bonds are least likely to be called if

- A. they are selling at a substantial discount.
- B. they are selling at a substantial premium.
- C. if they do not mature for at least 5 years.
- D. the price is close to par value.

26. Which of the following practices is prohibited by the Insider Trading and Fraud Act of 1988.

- A. the granting of stock options to corporate executives in lieu of salaries.
- B. private sales of stock between executives of the company.
- C. selling of stock by officers of the company.
- D. the use of nonpublic information to make profitable stock transactions.

27. Jessica purchased 200 shares of stock at $38 using her 70% margin account. Her maintenance margin is 40%. Jessica has no other securities in her account. At what price will she receive a margin call?

- A. $11.40
- B. $26.60
- C. $7.60
- D. $19.00
28. One motive for issuing classified stock with different voting rights is to

- A. facilitate the issue of additional shares in the future.
- B. allow the company's founders to retain control of the company.
- C. avoid SEC reporting requirements.
- D. increase the market value of the company.

29. Exchange traded funds are

- A. groups of securities that trade only on regional exchanges.
- B. index funds that trade on the NYSE.
- C. mutual funds that trade on the Big Board.
- D. baskets of securities that trade like a single stock.

30. To take advantage of the opportunity to acquire additional shares of a company's stock without incurring any brokerage commissions, many investors participate in

- A. dividend reinvestment plans.
- B. initial public offerings.
- C. deferred equity securities.
- D. corporate trusts.

31. The bond market is considered bearish when

- A. market interest rates are low or falling.
- B. market interest rates are high or rising.
- C. more bonds are called than issued over a given period of time.
- D. the risk–free rate of return exceeds the required rate of return.
32. Reinvested dividends

☐ A. are taxed at the time the dividend is paid.
☐ B. are generally sold at a premium over the market price.
☐ C. are taxed when the shares purchased with the reinvested dividend are sold.
☐ D. do not increase the value of an investor's holdings.

33. What is the tax-equivalent yield of a double tax—free 5% municipal bond if the investor is in the 28% federal and 7% state tax brackets?

☐ A. 7.69%
☐ B. 7.14%
☐ C. 7.47%
☐ D. 6.94%

34. Rob owns 300 shares of Blackwood common stock valued at $9 a share. Blackwood has declared a 3-for-1 stock split effective tomorrow. After the split, Rob will own

☐ A. 900 shares valued at about $27 a share.
☐ B. 900 shares valued at about $3 a share.
☐ C. 100 shares valued at about $27 a share.
☐ D. 100 shares valued at about $3 a share.

35. The common shares of the Owl Company have a book value of $10.80 and a market value of $14.30. The company pays $0.14 in dividends each quarter. What is the dividend yield?

☐ A. 1.3%
☐ B. 1.0%
☐ C. 5.2%
☐ D. 3.9%
36. The document that describes the issuer of a security's management and financial position is known as a

- [ ] A. balance sheet.
- [ ] B. red herring.
- [ ] C. 10-K report.
- [ ] D. prospectus.

37. In a rights offering, the

- [ ] A. underwriter offers the investing public a certain number of shares at a certain price.
- [ ] B. existing stockholders are given the first opportunity to purchase new shares in proportion to their current ownership position.
- [ ] C. amount of debt in the capital structure increases by the amount of the rights offering.
- [ ] D. total equity remains constant while the number of shares of common stock outstanding increases.

38. If a firm has 2 million shares outstanding and its stock trades at $25 per share, the company also has $10,000,000 in debt. The company's market capitalization is

- [ ] A. $49,000,000.
- [ ] B. $60,000,000.
- [ ] C. $40,000,000.
- [ ] D. $50,000,000.

39. Solstice Corporation issued a 5% bond four years ago at par value. The market interest rate on comparable bonds today is 4%.

- [ ] A. This bond sells at a premium and the coupon rate is lower than the yield.
- [ ] B. This bond sells at a discount and the coupon rate is higher than the yield.
- [ ] C. This bond sells at a premium and the coupon rate is higher than the yield.
- [ ] D. This bond sells at a discount and the coupon rate is lower than the yield.
40. The Jennings Company has 4 million shares of stock outstanding. The stock has a par value of $0.10 per share and is currently trading at $18 per share. According to this information, the market capitalization of Jennings is

- [ ] A. $400,000.
- [ ] B. $72 million.
- [ ] C. $7.2 million.
- [ ] D. $40 million.
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