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QUESTION 1

Which of the following is not a characteristic of all auction stock exchanges in the U.S.?

- A. There is a central marketplace.
- B. Stocks that are traded on the exchange must meet certain listing requirements, determined by the exchange.
- C. In order to conduct a trade on the exchange, a broker must be a member of the exchange or hold a license to trade on the exchange.
- D. If a stock is listed on one of these exchanges, it is not permitted to be listed on any other exchange.

Correct Answer: D

Explanation: The statement that does not describe a characteristic of all U.S. auction stock exchanges is D. Dual listing is permitted. Stocks listed on one exchange may also be listed on another. In fact, most of the trading on U.S. regional exchanges is in dual-listed stocks. All of the auction exchanges do have a central marketplace, listed stocks must meet listing requirements, and brokers wishing to conduct trades on the exchange must be members of the exchange or hold a license to trade on the exchange.

QUESTION 2

Commercial paper is:

- A. long-term debt issued by commercial banks.
- B. short-term, unsecured debt issued by large corporations.
- C. issued with maturities of 1 to 2 years.
- D. short-term debt that is backed by stocks and bonds that the issuing firm owns.

Correct Answer: B

Explanation: Commercial paper is short-term, unsecured debt issued by large corporations. It generally has a maturity of less than 270 days so that it does not need to be registered with the SEC in order to be offered for sale.

QUESTION 3

Which of the following is exempt from registering as an investment company under the Investment Company Act of 1940?

- A. a unit investment trust
- B. a non-diversified mutual fund
- C. a company that sells its securities only to accredited investors
- D. a company that has no sales charges or management fees

Correct Answer: C

Explanation: A company that sells its securities only to accredited investors is exempt from registering as an investment company under the Investment Company Act of 1940. All the other choices describe investment companies that are required to file a registration statement with the SEC.

QUESTION 4

A feature that gives a bondholder or the owner of preferred stock of a corporation the option to exchange his security for shares of the common stock of the firm is called a:

- A. call feature.
- B. warrant.
- C. convertible feature.
- D. right.

Correct Answer: C

Explanation: A convertible feature on a bond or preferred stock gives the bondholder or the preferred stock owner the option to exchange the security he owns for shares of common stock of the firm.

QUESTION 5

A discretionary account authorization permits a registered representative to decide:

- A. whether to make a purchase or a sale.
- B. what specific asset to purchase or sell.
- C. how much of an asset to buy or sell for the account.
- D. all of the above.

Correct Answer: D

Explanation: A discretionary account authorization permits a registered representative to decide on all three issues- whether to make a purchase or a sale; what specific asset should be purchased or sold; and how much of that asset to buy or sell.

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