FINRA-SERIES-7 Q&As

FINRA General Securities Representative Examination (GS)

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QUESTION 1

When a member firm buys or sells securities directly as principal with a public customer, it is acting as:

A. a dealer

B. a broker

C. an agent

D. none of the above

Correct Answer: A

a dealer. When a firm does business directly with a customer, it is acting as a dealer. When it represents a customer, it is acting as a broker.

QUESTION 2

Bubba owns a perpetual warrant to buy one share of Internet Corporation common stock at $30. Internet Corporation stock is trading at 41.50 and is ex-dividend today at $0.75. What is the market value of Bubba\\'s warrant?

A. 5.75

B. 5.62

C. 5.38

D. cannot be determined from this information

Correct Answer: D

cannot be determined. Bubba can put away the calculator. The warrant is "perpetual" so the value is not determinable from today\\'s price of the common stock.

QUESTION 3

For an FINRA member firm to exercise discretionary power in any customer account requires written authorization by that customer except when:

A. the customer is a spouse of the registered representative

B. the customer has given an oral approval after the transaction

C. only time and price of execution are involved

D. both B and C

Correct Answer: C

only time and price of execution are involved. The only exception to the discretionary rule is when the customer gives discretion regarding time and price of execution.

QUESTION 4

Bubba sells 100 shares of XYZ short at $58 and buys 1 XYZ Mar 60 Call at $3. What is the customer\\'s maximum loss?

A. $500

B. $100

C. unlimited

D. $5,500

Correct Answer: A

$500. Bubba sold short at $58. The call with a strike price of 60, gives him the right to buy back the stock at $60. If the stock rises, the call can be used to limit the loss to 2 points. Bubba can lose $200 on the stock. Bubba also paid a $300 premium. Loss potential is $500.

QUESTION 5

Bubba has not 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

Correct Answer: D

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