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Exam : **Series7**

Title : General Securities
Representative Examination
(GS)

Vendor : FINRA

Version : DEMO

NO.1 Bubba's pledge to purchase a specified dollar amount of a mutual fund within a specified period of time is called:

- A. a promissory note
- B. a letter of intent
- C. an investment letter
- D. a stock power

Answer: B

Explanation: a letter of intent. This accurately describes the definition of a letter of intent.

NO.2 When a corporation dissolves, who gets paid first?

- A. bank lenders
- B. senior bond holders
- C. the tax collector
- D. the lawyer

Answer: C

Explanation: the tax collector. Taxes always have preference over any other creditors.

NO.3 In June, Bubba bought 100 shares of XYZ at \$35. In November, he bought a listed put in XYZ with a \$35 strike price and a July expiration for a premium of \$600. In April, Bubba exercises the put option and uses

his stock for delivery. What is his resulting tax consequence?

- A. a \$600 capital loss
- B. neither profit nor loss
- C. cannot be determined without knowing the market price of XYZ upon exercise
- D. this is a wash sale and cannot be included in the investor's tax calculations

Answer: A

Explanation: a \$600 loss. The strike price and Bubba's purchase price are the same. He has a \$600 loss on the option for the premium he paid.

NO.4 The definition of debentures is:

- A. a loan secured by real estate
- B. collateralized securities
- C. a worthless security
- D. securities backed by the general credit of the issuers but no specific collateral

Answer: D

Explanation: securities backed by the general credit of the issuers but no specific collateral. And in the case of some issuers, that may be fairly worthless.

NO.5 Bubba Brokerage Corporation announces through its wire system that it has a large block of stock for sale.

Customers purchasing the stock will not pay a commission. The block is crossed on the NYSE floor and is

printed on the NYSE tape. This is called a:

- A. special order

- B. exchange distribution
- C. secondary distribution
- D. specialist block purchase

Answer: B

Explanation: exchange distribution. An exchange distribution is a large block sold internally by one firm

that is crossed on the floor of the exchange. The trade would print on the tape identified by the letters "DIST".

NO.6 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

Answer: D

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

NO.7 The maximum contribution an employer may make to a SEP-IRA is:

- A. \$4,000
- B. \$5,000
- C. 25% of employee compensation
- D. 100% of employee compensation

Answer: C

Explanation: 25% of employee compensation. There is also a dollar cap that is has an annual cost-of-living adjustment.

NO.8 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

Answer: D

Explanation: 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.

NO.9 In the offering of new securities, members of the syndicate are permitted to sell to other dealers less the

reallowance. The amount of the reallowance is determined by:

- A. the FINRA
- B. the issuing corporation
- C. the syndicate manager
- D. the SEC

Answer: C

Explanation: the syndicate manager. The reallocation as well as the selling concession given to selling group members are determined by the managing underwriters.

NO.10 An investment company incapable of issuing a long-term debt instrument is:

- A. a face-amount certificate company
- B. a unit investment trust
- C. a closed-end investment company
- D. an open-end investment company

Answer: D

Explanation: an open-end investment company. By definition, open-end funds may not issue senior securities. They only issue "voting stock".

NO.11 A new stock offering by Bubba Corporation provides details that state between 1,000,000 and 1,500,000

shares will be sold depending upon market conditions. This offering is a:

- A. best efforts
- B. standby
- C. mini-max
- D. market potential

Answer: C

Explanation: mini-max. These offerings state the minimum and maximum number of shares offered.

NO.12 A corporation makes a rights offering to raise \$10 million of new capital by issuing one million shares of

common stock. If it already has six million shares outstanding at the time of the offering. What is the subscription price per share?

- A. \$4
- B. \$6
- C. \$7
- D. \$10

Answer: D

Explanation: \$10. There are one million shares divided into the \$10 million of new capital.

NO.13 Service charges by a FINRA dealer for transfer and safekeeping of customer securities held in street

name:

- A. may not be levied under FINRA Conduct Rules
- B. may not be levied unless there is no trading in the account for more than six months
- C. may be levied only if the security has a value of less than \$5,000
- D. may be levied only if the charge is fair, reasonable, and non-discriminatory

Answer: D

Explanation: may be levied only if the charge is fair, reasonable, and non-discriminatory. This is the standard in the FINRA rules.

NO.14 The Bubba Insurance Company is not incorporated. It consists of Bubba and his two brothers as general

partners, who maintain an active securities account in the name of the company. If one of the partners should suddenly die, what course of actions should be undertaken by the registered representative at the brokerage?

- A. freeze the account from further activity until a death certificate and new partnership agreement are furnished to the brokerage
- B. no special action is required because the death of a single partner does not terminate the partnership agreement
- C. distribute the assets in the account to the surviving partners
- D. execute sell orders but do not accept buy orders or distribute assets from the account until a new partnership agreement is provided to the brokerage

Answer: D

Explanation: execute sell orders but do not accept buy orders or distribute assets from the account until a new partnership agreement is provided to the brokerage. Sell orders may be accepted but not buy orders or distributions.

NO.15 When an index option is exercised, settlement is made by:

- A. delivery of the underlying securities
- B. delivery of a futures contract
- C. cash
- D. any of the above

Answer: C

Explanation: cash. Index options are settled by payment of cash.