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## General Securities Representative Qualification Examination (GS)

FINRA Series-7

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## QUESTION NO: 1

A registered bond with "Happy Birthday" scrawled across the face of the certificate is delivered to a broker/dealer in satisfaction of sale by another member firm. Assuming it is accompanied by an authentic assignment, power of substitution form, and tax stamps (if appropriate), this is good delivery only if:

- A. the certificate is validated by the transfer agent
- B. the certificate is validated by the registered owner
- C. the marking did not cover the name of the registered owner or the principal amount of the bond
- D. this is not a good delivery under any circumstances

## ANSWER: A

### Explanation:

the certificate is validated by the transfer agent. A mutilated bond must be validated before it can be a good delivery. The validation can be made by the issuer or the transfer agent.

## QUESTION NO: 2

Bubba's margin account has \$2,000 of SMA. If he buys \$10,000 of new securities, how much additional cash must he deposit assuming a Reg T requirement of 50%?

- A. \$3,000
- B. \$4,800
- C. \$5,000
- D. \$6,000

## ANSWER: A

### Explanation:

\$3,000. The purchase requires \$5,000 ( $\$10,000 \times 50\%$ ). Since the existing SMA is \$2,000 Bubba only needs to deposit the remaining \$3,000.

## QUESTION NO: 3

Bubba buys a 5% bond that matures in 15 years with a 5.10 basis. How much did he pay for the bond?

- A. 5.00
- B. 98.96

C. 100.00

D. 105.10

**ANSWER: B**

**Explanation:**

98.96. A calculator is not required for this. Even Bubba knows the bond is obviously trading at a slight discount by yielding 5.10% instead of the coupon rate of 5%. If the yield was the same as the coupon rate, the price is 100.00.

## QUESTION NO: 4

Bubba buys one XYZ November 65 call at \$3 and one XYZ November 65 put at \$2. XYZ is trading at \$72. The put expires and the call is closed at its intrinsic value.

What is the resulting profit?

A. \$200

B. \$300

C. \$500

D. \$700

**ANSWER: A**

**Explanation:**

\$200. Since XYZ is trading at 72, a November 65 call has an intrinsic value of \$700. A sale at that value compared to the cost of \$300 is a profit of \$400. Subtract the loss of \$200 on the expired put to obtain the profit of \$200.

## QUESTION NO: 5

When depositors withdraw money from savings institutions to invest in US treasury securities, this is called:

A. the multiplier effect

B. disintermediation

C. reverse repo

D. open market operations

**ANSWER: B**

**Explanation:**

disintermediation. An easier word would be preferable, but that's the correct term.

## QUESTION NO: 6

Hypothecation usually refers to which of the following?

- A. forecasting the market based upon past performance
- B. pledging securities as collateral
- C. determining a reasonable offering price for a new issue
- D. none of the above

**ANSWER: B**

**Explanation:**

pledging securities as collateral. To hypothecate securities is to pledge them.

## QUESTION NO: 7

A corporate bond is quoted as having a net change in value of plus one point.

By how much did the bond price increase?

- A. \$1,000
- B. \$100
- C. \$10
- D. \$1

**ANSWER: C**

**Explanation:**

\$10. A point is 1% and bonds are priced in \$1,000 increments. Multiplying \$1,000 by 1% equals \$10.

## QUESTION NO: 8

Common stocks for which of the following industries are most likely to decline in value when interest rates rise?

- A. automobile manufacturers
- B. airlines
- C. stock brokers
- D. public utility companies

**ANSWER: D**

**Explanation:**

public utility companies. Interest rates most affect the companies with the greatest amount of debt. Public utility companies are highly leveraged. Hence, they most likely incur the largest effect of rising interest rates.

**QUESTION NO: 9**

Bubba plans to borrow some money and pledge securities as collateral.

Which of the following can he not use as collateral?

- A. Series EE bonds
- B. US treasury bills
- C. US treasury notes
- D. US treasury bonds

**ANSWER: A****Explanation:**

Series EE bonds. Because Series EE bonds are not negotiable, they have no collateral value. They cannot be sold back to the US government.

**QUESTION NO: 10**

The expiration date of a listed option is:

- A. the last day of the expiration month
- B. the third Saturday of the expiration month
- C. the Saturday following the third Friday of the expiration month
- D. the third Friday of the expiration month

**ANSWER: C****Explanation:**

the Saturday following the third Friday of the expiration month. It is NOT the third Saturday. The final day to trade options is the third Friday of the expiration month. The options expire the next day.

**QUESTION NO: 11**

Bubba Corporation owes income tax. Which of the following may be tendered at par value for payment of the tax?

- A. term bond

- B. tax anticipation bill
- C. special tax bond
- D. pre-issue bond

**ANSWER: B**

**Explanation:**

tax anticipation bill. These are specifically designated securities that may be used at face value for payment of corporate taxes.

**QUESTION NO: 12**

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".

**QUESTION NO: 13**

Limited partnerships try to avoid recapture because:

- A. it turns potential capital gains into current taxable income
- B. it may subject the partnership to the add-on tax
- C. it increases the risk of a tax audit
- D. it always increases the investor's tax bracket

**ANSWER: A**

**Explanation:**

it turns potential capital gains into current taxable income. Recapture is taxed as ordinary income, not capital gain. The other choices are not true.

## QUESTION NO: 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

**ANSWER: C**

### Explanation:

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 NO: 15

Which of the following is true of treasury stock?

- A. it has voting rights
- B. it is entitled to receive dividends
- C. it is stock that has not been issued
- D. it is stock that has been reacquired by the issuer

**ANSWER: D**

### Explanation:

it is stock that has been reacquired by the issuer. Treasury stock has no voting rights and is not entitled to receive dividends. The shares have been issued but are no longer outstanding in the market.