

## **Series 7 Securities Licensing Exam Review Questions**

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*First Printing: May 2003*

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## First Printing Corrections

Pg	Error	Correction
Cram Sheet	28. Defeasance: Purchase of U.S. government securities <del>from the trustee</del> ; used to effectively retire existing debt for a municipality.	28. Defeasance: Purchase of U.S. government securities <b>that are placed with a</b> trustee; used to effectively retire existing debt for a municipality.
Cram Sheet	31. Revenue bonds: Bonds issued for new project funding such as new roads that with usage fees.	31. Revenue bonds: Bonds issued for new project funding such as new roads that <b>are backed</b> with usage fees.
Cram Sheet	33. Net revenue pledge: Revenue bonds funds to pay operation and maintenance costs before bondholders.	33. Net revenue pledge: Revenue bond funds <b>used</b> to pay operation and maintenance costs before bondholders.
Cram Sheet	125. IRA: Individual Retirement Account; <del>\$3000</del> maximum tax-deductible individual contribution; <del>\$3500</del> over age 50.	125. IRA: Individual Retirement Account; <b>\$4000</b> maximum tax-deductible individual contribution; <b>\$4500</b> over age 50 <b>in 2005</b> .
Cram Sheet	141. Macroeconomics: Study of the economy using such as price levels, unemployment, inflation, industrial production, and consumer products.	141. Macroeconomics: Study of the economy using <b>indicators</b> such as price levels, unemployment, inflation, industrial production, and consumer products.
3	Question 12:  12. The date on which a corporation <del>files a</del> registration statement with the SEC for a new offering is known as the what?	12. The date on which a corporation <b>receives approval on its</b> registration statement with the SEC for a new offering is known as the what?
7	17. <del>D</del>  20. <del>B</del>	17. <b>A</b>  20. <b>C</b>

10	Answer 17: 17. Answer <del>D</del> is correct.	17. Answer <b>A</b> is correct.
10	Answer 20: 20. Answer <del>B</del> is correct. The...choice <del>H</del> is not...	20. Answer <b>C</b> is correct. The...choice <b>C</b> is not...
38	Question 13, choice C: C. <del>\$480,000</del>	C. <b>\$4,800,000</b>
63	6. <del>A</del>	6. <b>C</b>
64	Answer 6: 6. Answer <del>A</del> is correct.	6. Answer <b>C</b> is correct.
76	19. <del>D</del>	19. <b>C</b>
79	Answer 19: 19. Answer <del>D</del> is correct.	19. Answer <b>C</b> is correct.
84	Question 9: 9. All of the following securities pay <del>federal</del> income...	9. All of the following securities pay <b>state</b> income...
89	1. <del>A</del>	1. <b>C</b>
90	Answer 1: 1. Answer <del>A</del> is correct. The ... obligation. T-notes and strips are <del>not</del> direct ...	1. Answer <b>C</b> is correct. The ... obligation. <b>T-bills</b> , T-notes, and strips <b>are direct</b> ...
98	Question 25: 25. What is the current selling price of the agency debt bond <del>maturing in May 2001</del> ?	25. What is the current selling price of <b>an</b> agency debt bond <b>quoted at 102.12</b> ?

102	<p>Answer 25, first two sentences:</p> <p>25. Answer D is correct. <del>The Federal agency bond listed with a maturity date of May 2001</del> has a selling price of the lowest asking price of 102.12, or 102 12/32nds.</p>	<p>25. Answer D is correct. <b>A</b> Federal agency bond <b>with</b> a selling price of 102.12, or 102 12/32nds <b>has the following value.</b></p>
129	<p>Question 7, choice C:</p> <p>C. I, <del>III</del>, and IV</p>	<p>C. I, <b>II</b>, and IV</p>
135	<p>Question 25:</p> <p>Use the following...6.485% <del>Merrill Lynch</del>...</p>	<p>Use the following...6.485%...</p>
149	<p>16. <b>A</b></p>	<p>16. <b>C</b></p>
151	<p>Answer 16:</p> <p>16. Answer <b>A</b> is correct.</p>	<p>16. Answer <b>C</b> is correct.</p>
180	<p>Question 18, choice II:</p> <p>II. The writer owns a <del>call</del> on ABC stock with a strike price of \$70.</p>	<p>II. The writer owns a <b>put</b> on ABC stock with a strike price of \$70.</p>
183	<p>2. <del>D</del></p> <p>18. <b>B</b></p>	<p>2. <b>B</b></p> <p>18. <b>D</b></p>
184	<p>Answer 2, first and last sentences:</p> <p>Answer <del>D</del> is correct. ... <del>The number of contracts could affect the premium, but for the most part, the number of contracts affects the premium the least of all the choices.</del></p>	<p>Answer <b>B</b> is correct. ... <b>An option contract can have a zero intrinsic value but cannot have a zero time value.</b></p>

186	<p>Answer 18, first sentence and last two sentences:</p> <p><del>Answer B is correct. ... Uncovered puts have a finite loss because the stock represented by the option could only go to zero. Buying calls or puts has a maximum loss potential of the premium paid by the buyer.</del></p>	<p>Answer <b>D</b> is correct. ... <b>To be considered covered, the writer would need to be long 100 shares of the ABC stock or long warrants on ABC stock with a price equal to or lower than the strike price of 65.</b></p>
195	14. D	14. <b>C</b>
197	<p>Answer 14, first, third, and fourth sentences:</p> <p><del>Answer D is correct. ... In this case, Ryan needs to be short 5000 shares of NCR stock to be a covered writer. If the put options go down in value, the loss is offset by the gain from the shorted shares of NCR stock.</del></p>	<p>Answer <b>C</b> is correct. ... In this case, <b>the seller</b> needs to be short <b>500</b> shares of <b>xyz</b> stock to be a covered writer. If the put options go down in value, the loss is offset by the gain from the shorted shares of <b>xyz</b> stock.</p>
206	<p>Question 20:</p> <p><del>Referring to the previous question, what is the amount of cash that Christine is required to bring into the margin account when writing the uncovered JVC May 80 Put @ 7 and a market value of \$77?</del></p>	<p><b>What</b> is the amount of cash that Christine is required to bring into the margin account when writing <b>an</b> uncovered JVC May 80 Put @ 7 <b>with</b> a market value of \$77?</p>
206	<p>Question 21, choice D:</p> <p>D. II and III</p>	D. <b>I</b> and III
212	<p>Answer 20, second sentence:</p> <p><del>The previous question calculated...</del></p>	The question calculated...

212	Answer 21, delete the parenthetical reference at the end: ( <del>See the preceding explanation.</del> )	
212	Answer 25, last sentence: The broker... <del>her</del> option account.	The broker... <b>the</b> option account.
219	6. <b>B</b>	6. <b>A</b>
220	Answer 6, first sentence: Answer <b>B</b> is correct.	Answer <b>A</b> is correct.
255	2. <b>B</b>	2. <b>D</b>
256	Answer 2, first sentence: Answer <b>B</b> is correct.	Answer <b>D</b> is correct.
292	Answer 22, last two sentences: The NYSE...(\$9800 x 20% = \$ <del>1990</del> ) as ... requirement of \$ <del>1990</del> .	The NYSE...(\$9800 x 20% = \$ <b>1960</b> ) as ... requirement of \$ <b>1960</b> .
311	Question 20, choice C: C. No more than <del>5%</del> of its assets in cash	C. No more than <b>25%</b> of its assets in cash
317	Answer 20, second sentence: A diversified management company is <del>not</del> required...	A diversified management company is required...
352	Answer 7, last sentence: Conversely... also <del>be</del> the investors' risk.	Conversely... also the investors' risk.

359	<p>Question 9, first and second sentences:</p> <p>A married couple without pensions <del>earn</del> \$50,000 in a given year. They have made a <del>\$3000</del> IRA contribution for the husband and a <del>\$3000</del> IRA contribution for the wife.</p>	<p>A married couple without pensions <b>earns</b> \$50,000 in a given year. They have made a <b>\$4000</b> IRA contribution for the husband and a <b>\$4000</b> IRA contribution for the wife.</p>
359	<p>Question 9, choice A:</p> <p>A. <del>\$44,000</del> taxable income</p>	<p>A. <b>\$42,000</b> taxable income</p>
361	<p>Question 18 and choice I:</p> <p>Which of the following statements are considered true of a Roth IRA account?</p> <p>I. The maximum contribution is set at <del>\$3000</del> per year.</p>	<p>Which of the following statements are considered true of a Roth IRA account <b>in 2005</b>?</p> <p>I. The maximum contribution is set at <b>\$4000</b> per year.</p>
365	<p>Answer 8, last sentence:</p> <p>An individual... exceed the <del>\$3000</del> maximum allowable deduction.</p>	<p>An individual... exceed the <del>\$4000</del> maximum allowable deduction <b>in 2005</b>.</p>
366	<p>Answer 9, second and third sentences:</p> <p>A married couple... contribute <del>\$3000</del> each to and IRA account. By doing...\$50,000 - <del>\$6000</del> IRA contributions = <del>\$44,000</del> taxable income.</p>	<p><b>In 2005, a</b> married couple... contribute <b>\$4000</b> each to and IRA account. By doing...\$50,000 - <b>\$8000</b> IRA contributions = <b>\$42,000</b> taxable income.</p>

367	Answer 18, third sentence: The maximum contribution to a Roth IRA is also set at \$ <del>3000</del> per year.	The maximum contribution to a Roth IRA is also set at \$ <b>4000</b> per year.
372	Question 13, first sentence: An investor... of \$90.	An investor... of 90.
372	Question 15, first two sentences: An investor...at \$90 ...TNT bonds at \$94 in ...	An investor...at 90 ...TNT bonds at 94 in ...
373	Question 16, second sentence: He purchases...at \$100 in ...	He purchases...at 100 in ...
377	Answer 13, third sentence: The 10 bonds... at \$90, ... matured at \$100, or...	The 10 bonds... at 90, ... matured at 100, or...
377	Answer 14, last sentence: At maturity, they mature at a par value of \$100.	At maturity, they mature at a par value of \$100 <b>each</b> .

This errata sheet is intended to provide updated technical information. Spelling and grammar misprints are updated during the reprint process, but are not listed on this errata sheet.