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SERIES-7 Exam

General Securities Representative Qualification Examination (GS)

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DEMO VERSION (LIMITED CONTENT)

Questions & Answers

Version: 8.0

Question: 1

Which of the following preferred issues is likely to fluctuate most in value?

A. cumulative preferred
B. callable preferred
C. convertible preferred
D. broker preferred

Answer: C

Explanation:
Convertible preferred. Because of the conversion feature, convertibles are more closely linked to the price of the common stock. In addition, since the dividend rate on convertible preferred is usually lower than other preferred issues, the convertibles are more sensitive to interest rate fluctuations.

Question: 2

Which of the following rights does an ADR holder not have?

A. preemptive rights
B. the right to vote for your mother-in-law as a board member
C. the right to transfer ownership
D. the right to see financial statements

Answer: A

Explanation:
preemptive rights. Holders of ADRs do not have preemptive rights, although they have most other rights of shareholders, including the right to vote for board members-even a mother-in-law

Question: 3

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.
How many rights will the corporation distribute to its shareholders?

A. one million
B. six million
C. ten million
D. sixteen million

Answer: B

Explanation:
six million. One right for each outstanding share is distributed.

Question: 4

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.

Question: 5

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 subscription ratio is the corporation establishing for each new share?

A. 6 rights per share
B. 10 rights per share
C. 6 million rights per share
D. 10 million rights per share

Answer: A

Explanation:
6 rights per share. Each share receives a right and there are six million shares receiving rights to one million new shares. So six rights are required for one share.

Question: 6

Bubba owns stock with cumulative voting rights. There are five vacancies on a board and he owns 100 shares of stock. Bubba is entitled to cast the following votes:

A. a total of 100 votes
B. a total of 100 votes per
C. a total of 500 votes

D. you are not allowed to vote

Answer: C

Explanation:
500 votes. Under cumulative voting, the number of directors is multiplied by the number of shares owned. The votes may be cast all for a single director or divided in any manner among the directors.

Question: 7

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.

Question: 8

Convertible bonds have all of the following features except:

A. an ability to protect a short position on the stock into which they are convertible
B. permissibility for use as collateral
C. a normally higher yield than non-convertible bonds of the same issuer
D. fluctuations influenced by changes in the price of the underlying common stock

Answer: C

Explanation:
a normally higher yield than non-convertible bonds of the same issuer. Remember that the question says “except” for this feature. Convertible bonds normally do NOT have a higher yield than non-convertible bonds of the same issuer. Convertibles usually have a lower yield than non -convertible sisters.

Question: 9

Although a corporation has no earnings in a particular year, it is obligated to pay interest on all its outstanding debt except the following:

A. convertible subordinated debentures

B. collateral trust bonds
C. adjustment bonds
D. equipment trust certificates

Answer: C

Explanation:
adjustment bonds. These bonds are also known as income bonds. Interest is paid only if there is income.

Question: 10

Interest rates rise from 5.10% to 5.30%. For a prospective buyer of five $1,000 bonds, what is the increase in interest payments as a result of the rise?

A. $20
B. $100
C. $2
D. $10

Answer: D

Explanation:
$10. Interest rates increased by 20 basis points. One basis point is 10 cents. So 20 basis points is $2. But…since there are five bonds, that $2 x 5 = $10.

Question: 11

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: 12

Convertible preferred stock has all of the following characteristics except:

A. a lower dividend rate than non-convertible preferred
B. a dilution of earnings if converted into common stock
C. a requirement for shareholders to always accept the call price when called
D. required dividend payments to shareholders before any dividends are paid to holders of common stock

Answer: C

Explanation:
a requirement for shareholders to always accept the call price when called. All of the other statements are true “except” this one. Convertible preferred shareholders have a n opportunity to convert to common stock. There is no forced call price.

Question: 13

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: 14

Bonds are most often quoted as a percentage of:

A. face value
B. book value
C. market value
D. whatever value the broker says

Answer: A

Explanation:
face value. The price is 100.00 if the yield is the same as the coupon rate. A price of less than 100.00 means the yield is higher than the coupon rate. A price of more than 100.00 means the yield is lower than the coupon rate. The prices are a percentage of 100.00. However, treasury bonds and municipal bonds are not quoted in this way.

Question: 15

Which of the following is a right for shareholders of common stock?

A. the right to have the stock price increase
B. the right to vote about important matters of the company
C. the right to dividends
D. both B and C

Answer: B

Explanation:
the right to vote about important matters of the company. Shareholders have no expectation of stock price increase or dividends. They are entitled to receive dividends only if the board of directors declares them.

Question: 16

Who owns a corporation?

A. the owners of debentures
B. the holders of common stock
C. the holders of common stock and the holders of preferred stock
D. the government

Answer: C

Explanation:
the holders of common stock and the holders of preferred stock. The holders of all classes of stock are the owners. Each stock class has separate privileges, but all represent ownership. Even if the government is an owner, it holds shares of stock.

Question: 17

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.

Question: 18

Bubba decides to buy equity securities. Which of the following statements is always true about what Bubba is buying?

A. they are readily marketable
B. they have a fixed rate of return
C. they have a fixed maturity date
D. they are not secured by collateral

Answer: D

Explanation:
they are not secured by collateral. Equity is ownership, which has no collateral security…or any other kind of security such as a guaranteed return, maturity, or marketability.

Question: 19

Which of the following securities provides the longest term of option privilege?

A. puts
B. calls
C. warrants
D. rights

Answer: C

Explanation:
warrants. All of the others always have fixed maturity dates. Warrants often have no finite life and, if they do, it is a very long time.

Question: 20

A company may pay a declared dividend in which of the following ways:

A. with stock in a subsidiary company
B. with property
C. with cash
D. all of the above

Answer: D

Explanation:

all of the above. Dividends can be paid in all of these ways. They can also be paid with treasury stock or authorized but unissued stock.

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