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Question 1

Question Type: MultipleChoice

Which of the following best describes depreciation?

Options:

- A- tax credit available to investors in heavy equipment
- B- deductions from gross income to offset lower value of equipment
- C- return of principal from real estate investors
- D- capitalized an amortized maintenance costs

Answer:

B

Explanation:

deductions from gross income to offset lower value of equipment. Depreciation is the deduction of costs for capital assets as their value declines.

Question 2

Question Type: MultipleChoice

The total assets of a corporation are \$840,000, of which \$350,000 are current items. Total liabilities are \$460,000, of which \$290,00 are fixed obligations.

How much is the corporation's working capital?

Options:

A- \$60,000

B- \$110,000

C- \$180,000

D- \$380,000

Answer:

C

Explanation:

\$180,000. Subtract current liabilities from current assets. Current liabilities are \$170,000 (\$460,000 - \$290,000).

Question 3

Question Type: MultipleChoice

In a corporation's financial statements, earned surplus is also recognized as:

Options:

- A- gross profit
- B- operating income after payment of interest expense
- C- earnings retained after payment of dividends to shareholders
- D- net income

Answer:

C

Explanation:

earnings retained after payment of dividends to shareholders. The other choices are clearly incorrect. Earned surplus is also referred to as retained earnings.

Question 4

Question Type: MultipleChoice

Which of the following would be least useful to an analyst making a technical market report?

Options:

- A- advances and declines
- B- new highs and lows
- C- the short interest
- D- predictions of recession in the economy

Answer:

D

Explanation:

predictions of recession in the economy. All of the other choices are technical market indicators. An economic forecast is "fundamental" market data.

Question 5

Question Type: MultipleChoice

In mid-September, Bubba sells one XYZ February 50 call at \$6. It subsequently expires without being exercised.

How is the premium taxed?

Options:

A- Bubba's cost of the underlying stock is reduced

- B-** the \$600 premium is a capital gain
- C-** the \$600 premium constitutes ordinary income
- D-** the \$600 premium is rolled over into another XYZ call with the next longest expiration date

Answer:

B

Explanation:

the \$600 premium is capital gain. That's simply how the tax law works.

Question 6

Question Type: MultipleChoice

Which of the following is true about option prices?

Options:

- A- premiums on options for listed stocks are usually greater than on unlisted stocks
- B- premiums on options of higher-priced stocks are usually greater than on lower-priced stocks
- C- premiums on options of well-known companies are usually larger than on lesser-known companies
- D- premiums on options of volatile stocks are usually larger than on less volatile stocks

Answer:

D

Explanation:

premiums on options of volatile stocks are usually larger than on less volatile stocks. The likelihood of exercise increases with the volatility of a stock. Therefore, a higher premium is demanded.

Question 7

Question Type: MultipleChoice

When an index option is exercised, settlement is made by:

Options:

- 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.

Question 8

Question Type: MultipleChoice

When does a call option provide the most value to its holder?

Options:

- 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.

Question 9

Question Type: MultipleChoice

Bubba held one XYZ July 30 listed call option when XYZ split 2 for 1.

What is the resulting position, Bubba has on the Option Clearing Corporation's record?

Options:

- A- long one XYZ July 30 call
- B- long one XYZ July 30 call and short one XYZ July 30 call
- C- long two XYZ July 30 calls
- D- long two XYZ July 15 calls

Answer:

D

Explanation:

long two XYZ July 15 calls. Double the number of contracts and half the strike price. This is similar to XYZ shareholders doubling the number of shares they hold at the lower price.

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