# CSI CSC1 Practice Questions

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## Question 1

Question Type: MultipleChoice

A large number of well-trained, willing-to-work individuals have given up trying to find employment. All else being equal, how will the labor market indicators be affected by this event.

### Options:

A- A decrease in the structural unemployment rate.
B- A decrease in the overall unemployment rate.
C- An increase in the participation rate.
D- An increase in the labour force.

### Answer:

B

### Explanation:

When individuals stop actively seeking work, they are no longer considered part of the labour force, and this reduces the unemployment rate since it only includes those actively seeking employment.

A (Structural unemployment) remains unchanged as this relates to mismatches in skills or geographic factors.

C (Participation rate) decreases since fewer individuals are in the labour force.

D (Labour force) decreases as individuals withdraw from it.

## Question 2

Question Type: MultipleChoice

The principle of retraction in retractable preferred shares is identical to what other security?

### Options:

A- Callable preferred shares.

B- Retractable common shares
C- Redeemable preferred shares.
D- Retractable bonds and debentures

## Answer:

D

## Explanation:

The principle of retraction in retractable preferred shares allows the shareholder to force the issuing company to redeem the shares for cash at a predetermined price on or after a specified date. This feature is identical to retractable bonds and debentures, which give the bondholder the option to require the issuer to repay the principal before maturity.

Why Other Options are Incorrect:

A . Callable preferred shares: Callability benefits the issuer, not the holder, and is not similar to retraction.

B . Retractable common shares: Such securities are not common in the market and are not comparable to retractable preferred shares.

C . Redeemable preferred shares: Redemption is at the issuer's discretion, unlike retraction, which is at the holder's discretion.

Reference: CSC Volume 1, Chapter 8, 'Preferred Shares -- Retractable Preferred Shares' explains the retraction feature and its similarity to retractable bonds.

# Question 3

Question Type: MultipleChoice

A private company is working with an advisory firm To apply for a listing on a public exchange.

The management is concerned with the additional costs for the company Incurred by the listing and ongoing annual fees. What should management consider with regard to the costs and benefits of public listing?

## Options:

A- Management will benefit from the public disclosure of changes in the company.
B- Listing the company win attract new shareholders and increase the ability to raise capital.
C- Listing the company will require restrictions on stock options Issued for Internal use

D- The valuation of securities for estate tax purposes and estate tax punning will be easier

## Answer:

B

## Explanation:

Listing on a public exchange provides companies with access to a broader pool of potential investors. This increased visibility enhances the ability to raise capital through the issuance of shares or bonds. Although there are additional costs associated with being publicly listed (such as listing fees and compliance costs), the benefits of access to new sources of funding and improved liquidity for shares often outweigh these concerns.

Why Other Options are Incorrect:

A . Management will benefit from the public disclosure of changes in the company: Public disclosure does not directly benefit management but is a requirement for transparency.

C . Listing the company will require restrictions on stock options issued for internal use: While stock option plans may be regulated, this is not a primary consideration for listing.

D . The valuation of securities for estate tax purposes and estate tax planning will be easier: While public listing improves transparency, estate tax considerations are not a primary driver of listing decisions.

Reference: CSC Volume 1, Chapter 12, 'Advantages and Disadvantages of Going Public' discusses the increased access to capital and other benefits of listing.

# Question 4

Question Type: MultipleChoice

What is typically a key tax attribute of dividends?

## Options:

A- Dividend income is taxed more preferentially than interest income.
B- Dividends from preferred shares are ineligible tot dividend tax credit.
C- Stock dividends are treated differently than regular cash dividends for tax purposes.
D- Reinvested dividends are non-taxable to the shareholders.

## Answer:

A

## Explanation:

Dividends are taxed at a preferential rate in Canada due to the dividend tax credit, which reduces the effective tax rate on dividend income. This is intended to prevent double taxation because corporations have already paid taxes on their profits before distributing dividends to shareholders.

Why Other Options are Incorrect:

B . Dividends from preferred shares are ineligible for the dividend tax credit: This is incorrect; dividends from both common and preferred shares are eligible for the dividend tax credit.

C . Stock dividends are treated differently than regular cash dividends for tax purposes: Stock dividends are generally taxed similarly to cash dividends.

D . Reinvested dividends are non-taxable to the shareholders: Reinvested dividends are taxable in the year they are earned, even if reinvested.

Reference: CSC Volume 2, Chapter 24, 'Taxation of Dividend Income' discusses the tax treatment of dividends and the dividend tax credit.

# Question 5

Question Type: MultipleChoice

What is one feature of a general partnership?

## Options:

A- A general partner runs the business and the limited partners do not.
B- it can raise funds by issuing equity .
C- it is a distinct legal entity separate from its owners
D- The partners ate personally liable for al debts of the business

## Answer:

D

## Explanation:

In a general partnership, all partners share the responsibility of managing the business and are personally liable for its debts. This contrasts with a limited partnership, where limited partners have liability restricted to their investment.

Option A: Describes a limited partnership.

Option B: General partnerships do not issue equity to raise funds.

Option C: General partnerships are not distinct legal entities; liability is shared.

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# Question 6

Question Type: MultipleChoice

What is the role that the dealer member is taking when a client's order for an unlisted security is filled directly from inventory rather than on the exchange?

## Options:

A- Alternative trading system
B- Clearing agent
C- Over-the-counter agent
D- Principal

## Answer:

D

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## Explanation:

When a dealer member fills a client's order for an unlisted security from its own inventory, the dealer is acting as a principal.

A (Alternative trading system) refers to electronic platforms for trading securities.

B (Clearing agent) involves post-trade settlement activities.

C (Over-the-counter agent) is incorrect since the dealer is transacting directly.

## Question 7

Question Type: MultipleChoice

Anwar is placing a market order to purchase 100 shares of AJL when the bid/ask is $10.25."$ 10.75. Before the trade is complete, the bid/ask moves to $10.207S1Q70. What is the share price that Anwar will pay on the purchase transaction?

### Options:

A- $10.70
B- $10.75
C- $10.29
D- $10.20

### Answer:

A

### Explanation:

A market order executes immediately at the best available ask price for a purchase transaction. In this case, the bid/ask initially was $10.25/$10.75. However, before execution, the ask price updated to $10.70, meaning Anwar will pay $10.70 per share.

Why Other Options are Incorrect:

B . $10.75: This was the previous ask price but is no longer valid after the update.

C . $10.29: This value is not relevant to the current bid/ask spread.

D . $10.20: This represents the updated bid price, which applies to sell orders, not buy orders.

Reference: CSC Volume 1, Chapter 9, 'How Securities are Bought and Sold -- Types of Orders' explains market orders and their execution at the prevailing ask price.

## Question 8

Question Type: MultipleChoice

What is one at the advantages for the company when shares are publicly listed?

## Options:

A- Need to keep market participants informed.
B- Shareholders goodwill
C- Additional controls on management
D- Additional disclosure.

## Answer:

B

## Explanation:

One advantage of public listing is the goodwill generated among shareholders. Public listing enhances the company's visibility, credibility, and reputation, which can attract investors, customers, and business partners. This goodwill often facilitates access to capital and strengthens the company's market presence.

Study Document Reference:

Volume 1, Chapter 12: Advantages of Public Listing, outlining benefits such as goodwill and increased capital access.

# Question 9

Question Type: MultipleChoice

What best describes the liability of limited partners in a limited partnership?

## Options:

A- They are liable only to the extent of the daily business activities they participate in.
B- Their liability is limited to their investment
C- Their liability includes personal assets.
D- They are not liable for debts and losses incurred in business operations.

## Answer:

B

## Explanation:

In a limited partnership, the liability of limited partners is strictly limited to the amount of their investment in the partnership. They do not participate in the day-to-day management or operational decision-making of the partnership. This characteristic ensures that their personal assets are protected beyond their contribution to the partnership.

If limited partners were to engage in the management of the partnership, they could potentially lose their limited liability protection and be treated as general partners, exposing their personal assets to liability.

This concept is foundational in business structures like limited partnerships, allowing investors to contribute capital without risking their personal wealth beyond the agreed investment.

Study Document Reference:

Volume 1, Section on Corporations and Financial Structures: This section discusses different forms of business organizations, including partnerships, and highlights the limited liability of investors in structures like limited partnerships.

## Question 10

Question Type: MultipleChoice

What is margin in an equity transaction?

### Options:

A- Loan that a dealer extends to a client to buy securities.
B- Amount paid by a client when he uses credit to buy securities
C- Good-faith deposit to ensure the client will make future financial obligations
D- interest paid by the client to borrows securities.

### Answer:

A

### Explanation:

In an equity transaction, margin refers to the loan that a dealer extends to a client to facilitate the purchase of securities. The client pays a portion of the purchase price (the margin requirement), while the dealer provides the remainder as a loan. This enables clients to leverage their investments and potentially enhance returns, albeit with increased risk.

Other options:

Amount paid by a client when using credit to buy securities: Describes the margin requirement but does not fully define margin.

Good-faith deposit to ensure future financial obligations: Refers to initial margin in derivatives trading, not equity transactions.

Interest paid by the client to borrow securities: Refers to short-selling, not buying on margin.

Volume 1, Chapter 9: Equity Transactions, section on 'Margin Accounts' explains the mechanics of margin trading and loans.

## Question 11

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## Question 12

Question Type: MultipleChoice

What is the Impact from a security price increase on the investor holding a long margin position?

### Options:

A- The investor will incur a loss equivalent lo the difference be-ween the purchase and sale price.
B- The investor must immediately pay interest on the excess margin amount
C- The Investor must provide additional funds to cover the price difference
D- The investor has access to additional funds from the account available for withdrawal.

### Answer:

D

### Explanation:

When a security price increases in a long margin position, the equity in the margin account increases. The investor gains additional buying power and may withdraw excess margin, which represents the difference between the current equity and the margin requirement.

Option A: Incorrect; the investor would incur gains, not losses.

Option B: Incorrect; interest is charged on borrowed amounts, not excess margin.

Option C: Incorrect; additional funds are not required when equity rises.

## Question 13

Question Type: MultipleChoice

What action is an exchange likely to take when the public distribution of a given security has dwindled to an unacceptably low level?

## Options:

A- Delayed opening
B- Hall in trading.
C- Suspension in trading
D- Delisting

## Answer:

D

## Explanation:

When the public distribution of a security drops to an unacceptably low level, the exchange may consider delisting the security. This action ensures that the securities listed on the exchange meet minimum requirements to maintain market integrity and liquidity. Delisting is a permanent measure and typically occurs after other corrective actions fail, such as halting or suspending trading.

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