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Question 1

Question Type: MultipleChoice

Bubba has a short margin account with a short market value of \$22,000, a credit balance of \$42,000, and SMA of \$500.

What is the equity in Bubba's account?

Options:

A- \$500

B- \$20,000

C- \$20,500

D- \$37,000

Answer:

B

Explanation:

\$20,000. The equity in a short margin account is equal to the credit balance minus the short market value. SMA is not considered when computing equity.

Question 2

Question Type: MultipleChoice

Hypothecation usually refers to which of the following?

Options:

- 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 3

Question Type: MultipleChoice

If the Federal Reserve wished to ease credit, which of the following steps would it take?

Options:

- A-** raise the discount rate
- B-** purchase securities in the open market
- C-** lower reserve requirements
- D-** both B and C

Answer:

D

Explanation:

both B and C. Buying in the open market injects funds into the economy. Lowering reserve requirements provides banks with more funds for lending.

Question 4

Question Type: MultipleChoice

In a monthly review of customer statements, Bubba notices that one of his firm's clients has paid for seven purchases five days late. What does he do?

Options:

- A-** decides this situation is acceptable provided payment was received before any securities were sold
- B-** ascertains whether the client had a sufficient bank balance on settlement date
- C-** nothing because this is not a violation provided the securities were not listed on the NYSE

D- ascertains that extensions had been obtained under Reg T

Answer:

D

Explanation:

ascertains that extensions had been obtained under Reg T. If valid reasons exist, extension of time for payment may be obtained.

Question 5

Question Type: MultipleChoice

When the Federal Reserve lowers reserve requirements, what is it attempting to do?

Options:

A- ease credit

- B- raise interest rates
- C- counter inflation
- D- increase the rediscount rate

Answer:

A

Explanation:

ease credit. A lower reserve requirement permits member banks to have more money available for lending, thus ease credit.

Question 6

Question Type: MultipleChoice

Which of the following is the least important method of money control exercised by the Federal Reserve?

Options:

- A- reserve requirements
- B- open market operations
- C- discount rate
- D- Regulation T

Answer:

D

Explanation:

Regulation T. Because this regulates brokers extending credit to customers, it is important to the securities industry but does not have an extensive effect on the general economy.

Question 7

Question Type: MultipleChoice

Under Regulation T, when must money be deposited to cover requirements for Bubba's new purchases on margin?

Options:

- A- no later than the fifth business day after the trades
- B- no later than the seventh business day after the trades
- C- on the day of the trades
- D- on the next business day following the trades

Answer:

A

Explanation:

no later than the fifth business day after the trades. Bubba should pay up no later than the fifth business day.

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