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1. During which phase of the business cycle does unemployment typically reach its lowest point and consumer spending peak?

- A. Peak
- B. Contraction
- C. Trough
- D. Expansion

2. All of the following are considered securities EXCEPT:

- A. Limited partnerships
- B. Commodities
- C. Foreign currency options
- D. US Government bonds

3. Which of the following BEST describes Gross Domestic Product (GDP)?

- A. The total income earned by a country's residents from all sources including foreign investments
- B. The total market value of all goods and services produced by a country's citizens regardless of location
- C. The total market value of all final goods and services produced within a country's borders in a specific time period
- D. The total government spending on goods, services, and transfer payments within a country

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4. Which of the following are true regarding Real Estate Investment Trusts? I. They pass through income and losses generated by the properties owned. II. The securities offered by the trust are not redeemable. III. They must invest all of their money into real estate related projects. IV. Their securities offer less liquidity risk than real estate.

- A. II only
- B. II and IV
- C. I, III, and IV
- D. I, II, III, and IV

5. A client holds a \$1,000 bond paying a 5% annual coupon. If market interest rates rise to 7%, what happens to the bond's market price?

- A. The price rises above \$1,000 because the coupon is now more attractive
- B. The price remains at \$1,000 because the coupon payment is fixed
- C. The price falls below \$1,000 because investors demand a higher yield than the coupon offers
- D. The price rises above \$1,000 because rising rates signal a strong economy

6. An adviser recommends mutual funds to a capital-preservation-focused client but the client worries about safety. The adviser claims all securities are regulated by the SEC and state governments. Which is true?

- A. Misleading—mutual funds don't require state registration
- B. Misleading—SEC and states don't regulate investment safety
- C. Not misleading—SEC and states regulate securities trading
- D. Not misleading—mutual funds suit capital preservation

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7. On a company's balance sheet, which of the following is classified as a current liability?

- A. Accounts receivable due within 90 days
- B. Accounts payable due within 30 days
- C. Long-term mortgage payable over 20 years
- D. Common stockholders' equity



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8. All of the following are examples of fundamental factors regarding a company EXCEPT: I. earnings trends, II. short interest, III. put/call ratio, IV. management of the company.

- A. I and III
- B. I and IV
- C. II and III
- D. II and IV

9. The Federal Reserve raises the federal funds rate. This action is an example of:

- A. Contractionary fiscal policy
- B. Expansionary monetary policy
- C. Contractionary monetary policy
- D. Expansionary fiscal policy

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10. Which of the following investments provides the greatest real rate of return?

- A. Bond yielding 8% when inflation is 3%
- B. Bond yielding 11% when inflation is 7%
- C. Bond yielding 9% when inflation is 5%
- D. Bond yielding 6% when inflation is 2%

11. An investor wants to know how much she must deposit today to accumulate \$50,000 in 10 years, assuming a 6% annual return compounded annually. Which concept BEST describes this calculation?

- A. Internal rate of return
- B. Net present value of a project
- C. Future value of an annuity
- D. Present value of a lump sum

12. A 55-year-old invested \$100,000 in a non-qualified variable annuity over years; now worth \$120,000. They withdraw \$40,000 at 31% tax bracket. How much taxes owed?

- A. 0%
- B. \$6,200
- C. \$8,200
- D. \$16,400



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13. A nation reports that its Consumer Price Index rose from 240 to 252 over one year. What is the approximate inflation rate for that period?

- A. 4.8%
- B. 12.0%
- C. 5.0%
- D. 6.0%

14. All of the following are true about a Letter of Intent EXCEPT:

- A. It may be backdated for up to 90 days
- B. It may not be used by investment clubs
- C. It is valid for 13 months
- D. Redemptions cannot be made while the letter of intent is in effect

15. Which of the following fiscal policy actions would MOST likely be used to stimulate an economy experiencing a severe recession?

- A. Raising the reserve requirement for commercial banks
- B. Decreasing income tax rates and increasing government spending
- C. Selling Treasury securities through open market operations
- D. Increasing income tax rates and reducing government spending

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16. Immediate vesting on business contributions is provided in which of the following retirement plans?

- A. Keogh plans
- B. 401k plans
- C. SEP IRAs
- D. All of the above



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17. A company's income statement shows net sales of \$800,000, cost of goods sold of \$480,000, and operating expenses of \$160,000. What is the company's operating income?

- A. \$320,000
- B. \$160,000
- C. \$640,000
- D. \$480,000

18. Individual buys stock at \$30/share, gifts it when \$35, husband sells at \$38. What capital gain per share?

- A. \$3.00
- B. \$5.00
- C. \$5.50
- D. \$8.00

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19. An investor purchases an annuity that will pay \$5,000 per year for 5 years, with the first payment beginning one year from today. This is BEST described as:

- A. An annuity due, because payments are periodic
- B. An ordinary annuity, because payments occur at the end of each period
- C. A perpetuity, because payments recur indefinitely
- D. A deferred annuity due, because the first payment is delayed by one year

20. Under which of the following circumstances may a registered rep send a research report to a client about a company offering new securities during the cooling off period?

- A. If accompanied by a preliminary prospectus
- B. If granted approval by a principal
- C. Both A and B
- D. Neither A nor B

21. Stagflation is characterized by which combination of economic conditions?

- A. Rapid economic growth, high unemployment, and falling prices
- B. Slow or negative economic growth, high unemployment, and rising prices
- C. Low economic growth, low unemployment, and stable prices
- D. High economic growth, low unemployment, and rising prices



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22. Blue sky laws are:

- A. Federal securities regulations
- B. State securities regulations
- C. International securities regulations
- D. Self-regulatory organization rules

23. During a period of deflation, an investment adviser should be MOST concerned that a client holding long-duration fixed-rate bonds will face which of the following risks?

- A. Credit risk escalation, as deflation increases corporate default rates and reduces bond values
- B. Reinvestment risk from rising rates reducing the value of reinvested coupons
- C. Purchasing power risk, because the real value of coupon payments will erode
- D. Liquidity risk, because deflation always causes bond markets to freeze

24. The Securities Act of 1933 primarily regulates:

- A. Secondary market trading
- B. New issues of securities (primary market)
- C. Investment advisers
- D. Broker-dealer conduct

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25. A company has total assets of \$2,400,000, total liabilities of \$1,440,000, and net income of \$192,000. What is its return on equity (ROE)?

- A. 20.0%
- B. 8.0%
- C. 16.0%
- D. 13.3%

26. Which act created the Securities and Exchange Commission (SEC)?

- A. Securities Act of 1933
- B. Securities Exchange Act of 1934
- C. Investment Company Act of 1940
- D. Investment Advisers Act of 1940



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27. Which type of risk can be eliminated through diversification across a sufficient number of securities?

- A. Market risk
- B. Systematic risk
- C. Unsystematic risk
- D. Interest rate risk

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28. Under the Uniform Securities Act, an 'agent' is:

- A. Any employee of a broker-dealer
- B. A person who represents a broker-dealer in securities transactions
- C. The owner of a broker-dealer
- D. A compliance officer

29. Beta measures a security's:

- A. Total risk relative to its own historical average
- B. Sensitivity of returns to movements in the overall market
- C. Degree of correlation between two individual securities
- D. Excess return per unit of total risk

30. Variable annuities are considered securities because:

- A. They pay a fixed interest rate
- B. The return depends on the performance of underlying investments
- C. They are issued by the federal government
- D. They have a guaranteed death benefit



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Answer Key & Explanations

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1. A — Peak

The peak is the high point of a business cycle where economic output, employment, and consumer spending are at their maximum before the economy begins to contract.

2. B — Commodities

3. C — The total market value of all final goods and services produced within a country's borders in a specific time period

GDP measures the total market value of all final goods and services produced within a country's geographic borders during a defined period, distinguishing it from GNP which tracks output by a nation's citizens.

4. B — II and IV

5. C — The price falls below \$1,000 because investors demand a higher yield than the coupon offers

Bond prices and interest rates move inversely; when market rates exceed a bond's coupon rate, the bond must trade at a discount so that its total return equals the prevailing market yield.

6. B — Misleading—SEC and states don't regulate investment safety

7. B — Accounts payable due within 30 days

Current liabilities are obligations expected to be settled within one year, and accounts payable — amounts owed to suppliers for goods or services already received — are a classic example.

8. C — II and III

9. C — Contractionary monetary policy

Monetary policy is set by the Federal Reserve, and raising the federal funds rate increases borrowing costs to slow spending and reduce inflationary pressure, making it contractionary monetary policy.

10. A — Bond yielding 8% when inflation is 3%

11. D — Present value of a lump sum

Discounting a known future lump sum back to today using a required rate of return is the definition of present value (PV) of a lump sum, expressed as $PV = FV / (1 + r)^n$.

12. C — \$8,200

13. C — 5.0%

The inflation rate is calculated as $(252 - 240) / 240 = 12 / 240 = 0.05$, or exactly 5.0%, representing the percentage change in the price level over the period.

14. D — Redemptions cannot be made while the letter of intent is in effect

15. B — Decreasing income tax rates and increasing government spending

Expansionary fiscal policy — implemented by Congress and the President — involves cutting taxes to boost



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disposable income and increasing government spending to inject demand into a sluggish economy.

16. C — SEP IRAs

17. B — \$160,000

Operating income equals gross profit minus operating expenses; gross profit is $\$800,000 - \$480,000 = \$320,000$, and $\$320,000 - \$160,000 = \$160,000$ in operating income.

18. D — \$8.00

19. B — An ordinary annuity, because payments occur at the end of each period

An ordinary annuity (also called an annuity in arrears) is defined as a series of equal payments made at the end of each period, consistent with the first payment occurring one year from today.

20. D — Neither A nor B

21. B — Slow or negative economic growth, high unemployment, and rising prices

Stagflation describes the unusual coexistence of stagnant economic growth (or recession), high unemployment, and persistent inflation, which defies the traditional Phillips Curve trade-off.

22. B — State securities regulations

Blue sky laws are STATE-level securities regulations designed to protect investors from fraud.

23. A — Credit risk escalation, as deflation increases corporate default rates and reduces bond values

Deflation raises the real burden of corporate debt, compresses revenues and profit margins, and increases the probability of issuer default, making credit (default) risk the primary concern for corporate bond holders.

24. B — New issues of securities (primary market)

The Securities Act of 1933 regulates the PRIMARY market - new issues of securities.

25. A — 20.0%

Shareholders' equity equals total assets minus total liabilities ($\$2,400,000 - \$1,440,000 = \$960,000$), and $ROE = \text{net income} / \text{equity} = \$192,000 / \$960,000 = 0.20$, or 20.0%.

26. B — Securities Exchange Act of 1934

The Securities Exchange Act of 1934 created the SEC and regulates secondary market trading, broker-dealers, and exchanges.

27. C — Unsystematic risk

Unsystematic (company-specific) risk is diversifiable because individual stock price movements are not perfectly correlated, so combining enough securities causes their unique risks to offset each other, while systematic risk affects the entire market and cannot be diversified away.

28. B — A person who represents a broker-dealer in securities transactions

Under state law (USA), an agent is an individual who represents a broker-dealer or issuer in effecting or attempting to effect securities transactions.

29. B — Sensitivity of returns to movements in the overall market

Beta is a measure of systematic (market) risk that quantifies how much a security's return tends to move relative to a one-unit move in the broad market index, with a beta of 1.0 indicating movement in lock-step with the market.



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30. B — The return depends on the performance of underlying investments

Variable annuities are securities because the return varies based on the performance of underlying sub-accounts.



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