



# SIE Securities

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## Practice Questions

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### 1. Which federal law created the Securities and Exchange Commission (SEC)?

- A. The Securities Act of 1933
- B. The Securities Exchange Act of 1934
- C. The Investment Company Act of 1940
- D. The Trust Indenture Act of 1939

### 2. The Securities Act of 1933 primarily regulates which of the following?

- A. The issuance of new securities to the public
- B. Trading of securities on national exchanges
- C. The conduct of investment advisers
- D. The operations of clearing corporations

### 3. FINRA is best described as which type of organization?

- A. A federal government agency
- B. A division of the SEC
- C. A self-regulatory organization (SRO)
- D. A stock exchange

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### 4. Which entity is primarily responsible for regulating broker-dealers and registered representatives in the over-the-counter market?

- A. The Federal Reserve
- B. The MSRB
- C. The SEC directly
- D. FINRA



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**5. In which market do issuers raise new capital by selling securities for the first time?**

- A. The secondary market
- B. The third market
- C. The primary market
- D. The fourth market

**6. When an investor sells previously issued shares to another investor on an exchange, this transaction occurs in the:**

- A. Secondary market
- B. Primary market
- C. Issuer market
- D. New issue market

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**7. A company offering its shares to the public for the very first time is conducting a(n):**

- A. Secondary offering
- B. Initial public offering (IPO)
- C. Private placement only
- D. Tender offer

**8. The NYSE is an example of which type of market?**

- A. An over-the-counter dealer market
- B. A fourth market
- C. A private placement venue
- D. An exchange (auction) market

**9. A broker acts in which capacity when executing a customer order?**

- A. As principal, trading from its own inventory
- B. As an agent, matching buyers and sellers for a commission
- C. As an underwriter committing its own capital
- D. As a transfer agent

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**10. A dealer (market maker) earns compensation primarily through:**

- A. A markup or markdown on principal trades
- B. A commission as agent
- C. Management fees
- D. Underwriting spreads only

**11. Which of the following is the correct order of the four phases of the business cycle?**

- A. Trough, peak, expansion, contraction
- B. Peak, trough, expansion, contraction
- C. Expansion, peak, contraction, trough
- D. Contraction, expansion, peak, trough

**12. Gross domestic product (GDP) measures:**

- A. The total value of all goods and services produced in a country
- B. The total money supply
- C. Only government spending
- D. The unemployment rate

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**13. A sustained increase in the general price level of goods and services is known as:**

- A. Deflation
- B. Stagnation
- C. Disinflation
- D. Inflation

**14. Which examination must most individuals pass as a prerequisite, in combination with a representative-level exam, to become a registered representative?**

- A. The CPA exam
- B. The CFA exam
- C. The Series 24 exam
- D. The Securities Industry Essentials (SIE) exam



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**15. The lowest point of the business cycle, before the economy begins to recover, is called the:**

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

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**16. A custodian in the securities industry is responsible for:**

- A. Setting interest rates
- B. Underwriting securities
- C. Safekeeping a client's assets and securities
- D. Making markets in stocks

**17. FINRA's BrokerCheck tool primarily allows the public to:**

- A. Research the background and disciplinary history of brokers and firms
- B. Buy and sell securities directly
- C. Set interest rates
- D. File tax returns

**18. The primary mission of the SEC is to:**

- A. Protect investors and maintain fair, orderly, and efficient markets
- B. Maximize broker-dealer profits
- C. Set tax policy
- D. Manage the federal budget

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**19. Which of the following best distinguishes an equity security from a debt security?**

- A. Equity represents a loan to the issuer
- B. Equity must always be registered with the MSRB
- C. Equity represents ownership in a company, while debt represents a loan to the issuer
- D. Debt always pays dividends



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**20. The FDIC primarily insures which of the following?**

- A. Bank deposits
- B. Stocks and bonds
- C. Mutual fund shares
- D. Brokerage cash and securities

**21. Liquidity in the secondary market refers to:**

- A. The amount of cash a company holds
- B. The interest rate on a bond
- C. The ease with which a security can be bought or sold without significantly affecting its price
- D. The dividend yield

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**22. The high point of the business cycle, after which the economy begins to contract, is called the:**

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

**23. The MSRB writes rules for the municipal securities market, but which entity enforces those rules against bank dealers?**

- A. FINRA
- B. Federal bank regulators such as the OCC and Federal Reserve
- C. The SEC's Division of Enforcement only
- D. The MSRB itself

**24. The MSRB has rulemaking authority over which type of securities?**

- A. Municipal securities
- B. U.S. Treasury securities
- C. Listed common stock
- D. Corporate bonds

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**25. Which of the following is NOT a self-regulatory organization?**

- A. FINRA
- B. The MSRB
- C. The SEC
- D. The CBOE

**26. How many commissioners lead the SEC, and how are they selected?**

- A. Three, elected by industry members
- B. Five, appointed by the President and confirmed by the Senate
- C. Seven, appointed by the Federal Reserve
- D. Nine, appointed by Congress

**27. A registered representative who wishes to dispute a FINRA disciplinary decision can ultimately appeal to which body?**

- A. The MSRB
- B. A state securities administrator
- C. An arbitration panel
- D. The SEC

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**28. SIPC protects customers in which of the following situations?**

- A. A broker-dealer becomes insolvent and cannot return customer cash and securities
- B. An investor's stock declines in market value
- C. A mutual fund underperforms its benchmark
- D. An issuer defaults on its bonds

**29. The Federal Reserve regulates the extension of credit for securities purchases through which regulation?**

- A. Regulation A
- B. Regulation T
- C. Regulation D
- D. Regulation S



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**30. State securities laws are commonly referred to as what?**

- A. Blue-sky laws
- B. Federal covered laws
- C. Tower laws
- D. Penny stock laws



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## Answer Key & Explanations

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### 1. B — The Securities Exchange Act of 1934

The Securities Exchange Act of 1934 created the SEC to regulate the secondary market and enforce the federal securities laws. The 1933 Act governs new issues but did not create the SEC.

### 2. A — The issuance of new securities to the public

The Securities Act of 1933 is the 'paper act' governing the primary market — registration and disclosure for new issues. Secondary trading is covered by the 1934 Act.

### 3. C — A self-regulatory organization (SRO)

FINRA is a self-regulatory organization that oversees broker-dealers. It is not a government agency; it operates under SEC oversight.

### 4. D — FINRA

FINRA is the primary SRO regulating broker-dealers and their associated persons. It writes rules, administers exams, and enforces conduct standards under SEC oversight.

### 5. C — The primary market

The primary market is where issuers sell newly created securities to investors, raising capital for the issuer. Subsequent trading among investors occurs in the secondary market.

### 6. A — Secondary market

The secondary market is where investors trade outstanding securities among themselves. The issuing company does not receive proceeds from these trades.

### 7. B — Initial public offering (IPO)

An IPO is the first sale of a company's stock to the public, a primary market transaction. After the IPO, the shares trade in the secondary market.

### 8. D — An exchange (auction) market

The NYSE is an auction market where buyers and sellers compete to obtain the best price. Designated market makers help maintain orderly trading in listed securities.

### 9. B — As an agent, matching buyers and sellers for a commission

A broker acts as an agent, arranging trades between buyers and sellers and charging a commission. It does not take ownership of the securities.

### 10. A — A markup or markdown on principal trades

A dealer trades as principal from its own inventory and is compensated by the markup (when selling to a customer) or markdown (when buying from a customer). Brokers, by contrast, charge commissions.

### 11. C — Expansion, peak, contraction, trough

The business cycle runs expansion → peak → contraction → trough, then repeats. Recognizing the order helps anticipate economic conditions and their impact on markets.



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**12. A — The total value of all goods and services produced in a country**

GDP is the total market value of all final goods and services produced within a country over a period. It is the broadest measure of economic output and activity.

**13. D — Inflation**

Inflation is a general rise in prices that erodes purchasing power. Deflation is the opposite (falling prices), and disinflation is a slowing rate of inflation.

**14. D — The Securities Industry Essentials (SIE) exam**

The SIE is a foundational exam covering basic securities industry knowledge. Candidates typically pass the SIE plus a specialized exam (e.g., Series 7) to register as a representative.

**15. D — Trough**

The trough is the bottom of the business cycle, marking the transition from contraction to recovery (expansion). The peak is the high point before a downturn.

**16. C — Safekeeping a client's assets and securities**

A custodian (often a bank) holds and safeguards a client's securities and cash, handling settlement and recordkeeping. Custody helps protect customer assets from loss or theft.

**17. A — Research the background and disciplinary history of brokers and firms**

BrokerCheck is a free FINRA tool that lets investors review the professional background, registrations, and disciplinary history of brokers and brokerage firms. It promotes transparency and investor protection.

**18. A — Protect investors and maintain fair, orderly, and efficient markets**

The SEC's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. It pursues this through rulemaking, enforcement, and oversight.

**19. C — Equity represents ownership in a company, while debt represents a loan to the issuer**

Equity (such as common stock) represents ownership in a company, while debt (such as bonds) represents money loaned to the issuer that must be repaid with interest. This is a foundational distinction in capital markets.

**20. A — Bank deposits**

The FDIC insures deposits at member banks (e.g., checking and savings accounts) up to applicable limits. Securities held at a broker-dealer are protected by SIPC, not the FDIC.

**21. C — The ease with which a security can be bought or sold without significantly affecting its price**

Liquidity describes how readily a security can be converted to cash at a fair price. Highly liquid securities trade with narrow spreads and high volume; illiquid securities may be hard to sell quickly.

**22. C — Peak**

The peak is the top of the business cycle, marking the transition from expansion to contraction. After the peak, economic activity declines toward the trough.

**23. B — Federal bank regulators such as the OCC and Federal Reserve**

The MSRFB has no enforcement authority. For bank dealers, federal banking regulators (OCC, Fed, FDIC) enforce MSRFB rules; FINRA enforces them against securities firms.



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## 24. A — Municipal securities

The Municipal Securities Rulemaking Board regulates firms that underwrite, trade, and sell municipal securities. It has no authority over the issuers themselves, which are protected by the Tower Amendment.

## 25. C — The SEC

The SEC is a federal government agency, not an SRO. FINRA, the MSRB, and exchanges such as the CBOE are SROs that operate under SEC oversight.

## 26. B — Five, appointed by the President and confirmed by the Senate

The SEC is led by five commissioners appointed by the President and confirmed by the Senate. No more than three may be from the same political party, and one is designated chair.

## 27. D — The SEC

FINRA disciplinary decisions may be appealed to the National Adjudicatory Council, then to the SEC, and finally to the federal courts. The SEC provides oversight of FINRA's actions.

## 28. A — A broker-dealer becomes insolvent and cannot return customer cash and securities

SIPC protects customers against the loss of cash and securities held by a failed broker-dealer, up to coverage limits. It does NOT protect against market losses or poor investment performance.

## 29. B — Regulation T

Regulation T governs the extension of credit by broker-dealers to customers (initial margin). The Federal Reserve sets the Reg T requirement, currently 50% for most equity purchases.

## 30. A — Blue-sky laws

State securities laws are called 'blue-sky laws,' a term referring to early concerns about speculative schemes with no more basis than 'so many feet of blue sky.' The Uniform Securities Act is a model for these laws.



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