

## Reading 44: Market Organization and Structure

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### Question #1 of 70

Question ID: 415159

Which of the following statements about securities markets is *least* accurate?

- A) In a continuous market, a security can trade any time the market is open.
  - B) A market that features low transactions costs is said to have operational efficiency.
  - C) Initial public offerings (IPOs) are sold in the secondary market.
- 

### Question #2 of 70

Question ID: 415137

Becky Kirk contacted her broker and placed an order to purchase 1,000 shares of Bricko Corp. stock at a price of \$60 per share. Kirk wishes to buy on margin. Assuming the margin requirement is 40%, how much money does Kirk have to pay up front to make the purchase?

- A) \$24,000.
  - B) \$36,000.
  - C) \$60,000.
- 

### Question #3 of 70

Question ID: 434374

Which of the following statements about securities markets is *least* accurate?

- A) Secondary markets, such as the over-the-counter (OTC) market, provide liquidity and price continuity.
  - B) A limit buy order and a stop buy order are both placed below the current market price.
  - C) Characteristics of a well-functioning securities market *include*: many buyers and sellers, low bid-ask spreads, timely information on price and volume of past transactions, and accurate information on supply and demand.
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### Question #4 of 70

Question ID: 415143

An investor buys 1,000 shares of a non-dividend-paying stock for \$18. The initial margin requirement is 40% and the maintenance margin is 30%. After one year the investor sells the stock for \$24 per share. The investor's rate of return on this investment (ignoring borrowing and transactions costs and taxes), and the price at which the investor would receive a margin call, are *closest to*:

Rate of return   Margin call

- A) 83%                      \$21.00

- B) 33%                \$15.43
  - C) 83%                \$15.43
- 

### Question #5 of 70

Question ID: 415148

Toby Jensen originally purchased 400 shares of CSC stock on margin at a price of \$60 per share. The initial margin requirement is 50% and the maintenance margin is 25%. CSC stock price has fallen dramatically in recent months and it closed today with a sharp decline bringing the closing price to \$40 per share. Will Jensen receive a margin call?

- A) Yes, he does not meet the minimum maintenance margin requirement.
  - B) No, he meets the minimum maintenance margin requirement.
  - C) No, he meets the minimum initial margin requirement.
- 

### Question #6 of 70

Question ID: 415117

A securities exchange where traders buy and sell long-term government bonds from and to other traders would *best* be described as part of the:

- A) money market.
  - B) primary market.
  - C) capital market.
- 

### Question #7 of 70

Question ID: 415162

Which of the following statements about primary and secondary markets is *least* accurate?

- A) The proceeds from a sale in the secondary market go to the issuer.
  - B) A primary market is a market in which new securities are sold.
  - C) The primary market benefits from the liquidity provided by the secondary market.
- 

### Question #8 of 70

Question ID: 415160

Which of the following is *least likely* a service provided by an underwriter in the primary market?

- A) Diversification.
  - B) Risk Bearing.
  - C) Origination.
-

### Question #9 of 70

Question ID: 415136

If an investor buys 100 shares of a \$50 stock on margin when the initial margin requirement is 40%, how much money must she borrow from her broker?

- A) \$4,000.
  - B) \$3,000.
  - C) \$2,000.
- 

### Question #10 of 70

Question ID: 415116

The "real assets" classification *most likely* includes:

- A) stocks.
  - B) commodities.
  - C) bonds.
- 

### Question #11 of 70

Question ID: 415123

Financial intermediaries that issue securities which represent interests in a pool of similar financial assets are *best* characterized as:

- A) arbitrageurs.
  - B) securitizers.
  - C) block brokers.
- 

### Question #12 of 70

Question ID: 434373

An investor purchases 100 shares at \$75 per share with an initial margin of 50%. Assume there is no interest on the call loan and no transactions fees. If the stock price rises to \$112.50, the rate of return to the investor is:

- A) 50%.
  - B) 200%.
  - C) 100%.
- 

### Question #13 of 70

Question ID: 415168

A unique item such as fine art is *most likely* to be exchanged in a(n):

- A) order-driven market.

- B) brokered market.
  - C) quote-driven market.
- 

### Question #14 of 70

Question ID: 415119

Jorman Inc. stock is cross-listed on exchanges in Tokyo and New York. Jorman stock is *best* described as a:

- A) public security.
  - B) primary market security.
  - C) private security.
- 

### Question #15 of 70

Question ID: 415164

Which of the following statements regarding secondary markets is *least* accurate? Secondary markets are important because they provide:

- A) firms with greater access to external capital.
  - B) investors with liquidity.
  - C) regulators with information about market participants.
- 

### Question #16 of 70

Question ID: 415113

The main functions of the financial system *most likely* include:

- A) determining equilibrium interest rates and allocating capital to its most productive uses.
  - B) determining the supply of money and determining equilibrium interest rates.
  - C) allocating capital to its most productive uses and determining the supply of money.
- 

### Question #17 of 70

Question ID: 655687

An investor buys 200 shares of ABC at the market price of \$100 and posts the required initial margin of \$8,000. The maintenance margin requirement is 25%.

At what share price will the investor's account balance be reduced to the maintenance margin level?

- A) \$80.
  - B) \$48.
  - C) \$112.
-

### Question #18 of 70

Question ID: 415112

The main functions of the financial system *least likely* include:

- A) bringing together savers and borrowers.
  - B) preventing investors from generating abnormal profits by trading on information.
  - C) allocating financial resources to their most productive uses.
- 

### Question #19 of 70

Question ID: 415142

An investor purchases stock on 25% initial margin, posting \$10 of the original stock price of \$40 as equity. The position has a required maintenance margin of 20%. The investor later sells the stock for \$45. Ignoring transaction costs and margin loan interest, which of the following statements is *most* accurate?

- A) Margin call price is \$36.
  - B) Return on investment is 50%.
  - C) Leverage ratio is 3:1.
- 

### Question #20 of 70

Question ID: 415121

Equity securities *most likely* include:

- A) commercial paper and repurchase agreements.
  - B) preferred stock and certificates of deposit.
  - C) common stock and warrants.
- 

### Question #21 of 70

Question ID: 415144

An investor buys 400 shares of a stock for \$25 a share. The initial margin requirement is 50%, and the maintenance margin requirement is 25%. At what price would an investor receive a margin call?

- A) \$21.88.
  - B) \$30.00.
  - C) \$16.67.
- 

### Question #22 of 70

Question ID: 415133

Lynne Hampton purchased 100 shares of \$75 stock on margin. The margin requirement set by the Federal Reserve Board was 40%, but Hampton's brokerage firm requires a total margin of 50%. Currently the stock is selling at \$62 per share. What is Hampton's return on investment *before* commission and interest if she sells the stock now?

- A) -40%.
  - B) -17%.
  - C) -35%.
- 

### Question #23 of 70

Question ID: 415158

A primary market transaction involves:

- A) the direct trading of securities between institutional investors.
  - B) primarily preferred stocks.
  - C) the sale of new securities to investors.
- 

### Question #24 of 70

Question ID: 415171

An objective of financial market regulation is to:

- A) reduce information gathering costs by requiring common financial reporting standards.
  - B) prevent uninformed investors from participating in financial markets.
  - C) ensure that inside information is made public in a timely manner.
- 

### Question #25 of 70

Question ID: 415156

A buy limit order is said to be "inside the market" when:

- A) the limit is below the best bid.
  - B) it reaches the exchange floor and is entered in the limit book.
  - C) the limit is between the best bid and the best ask.
- 

### Question #26 of 70

Question ID: 415125

Which type of financial intermediary is a corporation *most likely* to use if it wants to issue new common stock to investors?

- A) Investment bank.
  - B) Securitizer.
  - C) Block broker.
- 

### Question #27 of 70

Question ID: 485799

An investor purchased 725 shares of stock at \$40 per share and posted initial margin of 60%. He subsequently sold the shares at \$50 per share. Based only on this information, the investor's holding period return is *closest to*:

- A) 40%.
  - B) 20%.
  - C) 25%.
- 

### Question #28 of 70

Question ID: 415129

A short seller:

- A) often also places a stop loss sell order.
  - B) does not receive the dividends.
  - C) loses if the price of the stock sold short decreases.
- 

### Question #29 of 70

Question ID: 415153

Austin Bruno, CFA, places a fill or kill, limit buy order at 92 for a stock. Bruno's order specifies:

- A) validity and execution instructions.
  - B) clearing and validity instructions.
  - C) execution and clearing instructions.
- 

### Question #30 of 70

Question ID: 415152

Stop loss sell orders are:

- A) placed to protect the gains on a long position.
  - B) placed to protect a short position.
  - C) executed on an uptick only.
- 

### Question #31 of 70

Question ID: 415157

Which of the following orders is said to be "behind the market"?

- A) Limit sell order at 38 when the best ask is 39.
  - B) Limit buy order at 38 when the best bid is 39.
  - C) Market sell order when the best bid is 38 and the best ask is 39.
-

### Question #32 of 70

Question ID: 415140

An investor bought a stock on margin. The margin requirement was 60%, the current price of the stock is \$80, and the stock price was \$50 one year ago. If margin interest is 5%, how much equity did the investor have in the investment at year-end?

- A) 67.7%.
  - B) 60.6%.
  - C) 73.8%.
- 

### Question #33 of 70

Question ID: 485798

Shares in a publicly traded company that owns gold mines and mining operations are considered:

- A) physical assets.
  - B) financial assets.
  - C) real assets.
- 

### Question #34 of 70

Question ID: 415172

Peg Fisk, CFA, states that two of the objectives of market regulation which CFA Institute attempts to address are minimum standards of competence among investment professionals and ease of performance evaluation for investors. Fisk is accurate with regard to:

- A) neither of these objectives.
  - B) only one of these objectives
  - C) both of these objectives.
- 

### Question #35 of 70

Question ID: 415151

An order placed to protect a short position is called a:

- A) stop loss sell.
  - B) stop loss buy.
  - C) protective call.
- 

### Question #36 of 70

Question ID: 415154

An order to sell a security at the best price available is *most likely* a:

- A) market order.



- B) stop order.
  - C) limit order.
- 

### Question #37 of 70

Question ID: 415139

Which of the following statements regarding margin accounts is *most* accurate?

- A) Margin accounts can be used to purchase securities by borrowing part of the purchase price.
  - B) The total equity in the margin account cannot fall below the initial margin requirement.
  - C) Maintenance margin refers to the amount of funds the investor can borrow.
- 

### Question #38 of 70

Question ID: 415115

Markets for financial assets with maturities of one year or less are *best* characterized as:

- A) capital markets.
  - B) primary markets.
  - C) money markets.
- 

### Question #39 of 70

Question ID: 415124

Which of the following statements about financial intermediaries is *most* accurate?

- A) Brokers seek out traders that are willing to take the opposite sides of their clients' orders.
  - B) Arbitrageurs buy securities with the anticipation that they will be able to sell the securities in the future at higher prices.
  - C) Dealers buy a security in one market and simultaneously sell the same security in a different market.
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### Question #40 of 70

Question ID: 415167

Which of the following statements about securities exchanges is *most* accurate?

- A) Call markets are markets in which the stock is only traded at specific times.
  - B) Continuous markets are markets where trades occur 24 hours per day.
  - C) Setting a negotiated price to clear the market is a method used to set the closing price in major continuous markets.
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### Question #41 of 70

Question ID: 415118

The prospectus for the Horizon Fund states that it invests only in real assets. Which of the following would the Horizon Fund *most likely* include in its portfolio?

- A) Common stock of a technology company.
  - B) An investment in an apartment complex.
  - C) Holdings of foreign currencies.
- 

### Question #42 of 70

Question ID: 415165

A trading system that matches buyers and sellers based on price and time precedence is *most likely* a(n):

- A) quote-driven market.
  - B) order-driven market.
  - C) brokered market.
- 

### Question #43 of 70

Question ID: 415114

Which of the following conditions is *most likely* necessary for capital to be allocated to its most valuable uses?

- A) Financial markets are frictionless (i.e., free of taxes or transactions costs).
  - B) Investors are well informed about the risk and return of various investments.
  - C) There are no barriers to the flow of complete information to the financial markets.
- 

### Question #44 of 70

Question ID: 415122

In contrast with a typical forward contract, futures contracts have:

- A) greater counterparty risk.
  - B) standardized terms.
  - C) less liquidity.
- 

### Question #45 of 70

Question ID: 415169

Which of the following is *least likely* a characteristic of a well-functioning market?

- A) Prices change significantly from one transaction to the next.
- B) Reliable information is available on price and volume.
- C) Prices adjust quickly when new information becomes available.

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**Question #46 of 70**

Question ID: 415149

Byron Campbell purchased 300 shares of Crescent, Inc., stock at a price of \$80 per share. The purchase was made on margin with an initial margin requirement of 50%. Assuming the maintenance margin is 25%, the stock price of Crescent, Inc. has to fall below what level for Campbell to receive a margin call?

- A) \$40.00.
- B) \$53.33.
- C) \$20.00.

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**Question #47 of 70**

Question ID: 485801

A stock's limit order book is as follows:

<u>Bid Size</u>	<u>Limit Price (£)</u>	<u>Offer Size</u>
700	25.25	
300	25.30	
100	25.40	
	25.50	500
	25.55	200
	25.75	500

A new sell limit order is placed for 250 shares at £25.45. This limit order is said to be:

- A) behind the market.
- B) an iceberg order.
- C) making a new market.

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**Question #48 of 70**

Question ID: 500871

Which of the following is *most likely* an objective of market regulation?

- A) Preserve or increase liquidity.
- B) Limit downside risk to investors.
- C) Educate unsophisticated investors.

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**Question #49 of 70**

Question ID: 415126

Regarding the technical points affecting the short sales of a stock, which of the following statements is *most* accurate?

- A) The short seller must pay all dividends due to the lender of the shorted stock.
- B) Stocks can only be shorted in a down market.

- C) The lender must deposit margin to guarantee the eventual return of the stock.
- 

### Question #50 of 70

Question ID: 415141

Sonia Fennell purchases 1,000 shares of Xpressoh Inc. for \$35 per share. One year later, she sells the stock for \$42 per share. Xpressoh Inc. pays no dividends. The initial margin requirement is 50%. Fennell's one-year return assuming an all-cash transaction, and if she buys on margin (assume she pays no transaction or borrowing costs and has not had to post additional margin), are *closest* to:

	<u>All-cash</u>	<u>50% margin</u>
A) 20%		80%
B) 20%		40%
C) 40%		80%

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### Question #51 of 70

Question ID: 415147

Which of the following statements about the maintenance margin requirement is *least* accurate?

- A) The Federal Reserve sets the maximum maintenance margin.
  - B) Generally the maintenance margin requirement is lower than the initial margin requirement.
  - C) The purpose of the maintenance margin requirement is to protect the broker in the event of a large stock decline.
- 

### Question #52 of 70

Question ID: 415131

When using margin to invest in equities, which of the following defines initial margin and what level will the margin be brought back to in the event of a margin call?

<u>Initial Margin</u>	<u>Margin Call Action</u>
A) minimum amount of equity required of the investor	a deposit must be made to bring the margin back to the initial margin
B) amount of borrowed funds in the transactions	a deposit must be made to bring the margin back to the maintenance margin
C) minimum amount of equity required of the investor	a deposit must be made to bring the margin back to the maintenance margin

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**Question #53 of 70**

Question ID: 415161

Which of the following statements regarding primary and secondary markets is *least* accurate?

- A) Secondary market transactions occur between two investors and do not involve the firm that originally issued the security.
- B) Prevailing market prices are determined by primary market transactions and are used in pricing new issues.
- C) New issues of government securities can be sold on the primary market.

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**Question #54 of 70**

Question ID: 415170

A financial system in which transactions have low costs is said to exhibit:

- A) informational efficiency.
- B) allocational efficiency.
- C) operational efficiency.

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**Question #55 of 70**

Question ID: 434372

An investor purchases 200 shares of Rubble, Inc. on margin. The shares are trading at \$40. Initial and maintenance margins are 50% and 25%. If the company pays a dividend of \$0.75 and the investor sells the stock at year-end for \$50 per share, the return on the investment would be *closest* to:

- A) 39.55%
- B) 15.75%
- C) 53.75%

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**Question #56 of 70**

Question ID: 415138

The initial margin is the:

- A) amount of cash that an investor must maintain in his/her margin account.
  - B) equity represented in the margin account at any time.
  - C) minimum amount of funds that must be supplied when purchasing a security on margin.
-

### Question #57 of 70

Question ID: 485800

A trader pays \$100 per share to buy 500 shares of a non-dividend-paying firm. The purchase is done on margin, and the leverage ratio at purchase is 3.0X. Three months later, the trader sells the shares for \$90 per share. Ignoring transaction costs and interest paid on the margin loan, the trader's 3-month return was *closest to*:

- A) -30%.
  - B) -40%.
  - C) -10%.
- 

### Question #58 of 70

Question ID: 415120

Which of the following assets are *best* characterized as contracts?

- A) Commercial paper.
  - B) Depository receipts.
  - C) Currency swaps.
- 

### Question #59 of 70

Question ID: 415128

Which of the following statements about selling a stock short is *least likely* accurate?

- A) The seller must return the securities at the request of the lender.
  - B) The seller must inform their broker that the order is a short sale before completing the transaction.
  - C) The short seller may withdraw the proceeds of the short sale.
- 

### Question #60 of 70

Question ID: 415132

Using the following assumptions, calculate the rate of return on a margin transaction for an investor who purchases the stock and the stock price at which the investor would have received a margin call.

- Market Price Per Share: \$32
- Number of Shares Purchased: 1,000
- Holding Period: 1 year
- Ending Share Price: \$34
- Initial Margin Requirement: 40%
- Maintenance margin: 25%
- Transaction and borrowing costs: \$0
- The company pays no dividends

Margin Return   Margin Call Price

- A) 6.3%                  \$25.60

- B) 15.6%            \$25.60
  - C) 15.6%            \$17.07
- 

### Question #61 of 70

Question ID: 415150

An investor sold a stock short and is worried about rising prices. To protect himself from rising prices he would place a:

- A) limit order to buy.
  - B) stop order to buy.
  - C) stop order to sell.
- 

### Question #62 of 70

Question ID: 415166

Which of the following statements about securities exchanges is NOT correct?

- A) In continuous markets, prices are set only by the auction process.
  - B) In call markets, there is only one negotiated price set to clear the market for a given stock.
  - C) Securities exchanges may be structured as call markets or continuous markets.
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### Question #63 of 70

Question ID: 415145

An investor purchases 100 shares of Lloyd Computer at \$26 a share. The initial margin requirement is 50%, and the maintenance margin requirement is 25%. The price below which the investor would receive a margin call is *closest* to:

- A) 15.25.
  - B) 19.45.
  - C) 17.33.
- 

### Question #64 of 70

Question ID: 415134

Mark Ritchie purchased, on margin, 200 shares of TMX Corp. stock at a price of \$35 per share. The margin requirement was 50%. The stock price has increased to \$42 per share. What is Ritchie's return on investment before commissions and interest if he decides to sell his TMX holdings now?

- A) 40%.
  - B) 20%.
  - C) 10%.
-

### Question #65 of 70

Question ID: 415163

Which of the following is a difference between primary and secondary capital markets?

- A) Primary capital markets relate to the sale of new issues of bonds, preferred, and common stock, while secondary capital markets are where securities trade after their initial offering.
  - B) Primary markets are where stocks trade while secondary markets are where bonds trade.
  - C) Secondary capital markets relate to the sale of new issues of bonds, preferred, and common stock, while primary capital markets are where securities trade after their initial offering.
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### Question #66 of 70

Question ID: 415130

Which of the following option positions is said to be a long position?

- A) Writer of a call option.
  - B) Buyer of a put option.
  - C) Writer of a put option.
- 

### Question #67 of 70

Question ID: 415127

An investor can profit from a stock price decline by:

- A) selling short.
  - B) purchasing a call option.
  - C) placing a stop buy order.
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### Question #68 of 70

Question ID: 415135

An investor buys 200 shares of ABC at the market price of \$100 on full margin. The initial margin requirement is 40% and the maintenance margin requirement is 25%.

If the shares of stock later sold for \$200 per share, what is the rate of return on the margin transaction?

- A) 100%.
  - B) 250%.
  - C) 400%.
-



### Question #69 of 70

Question ID: 434375

A market that directs capital to its most productive use is *best* described as:

- A) operationally efficient.
  - B) informationally efficient.
  - C) allocationally efficient.
- 

### Question #70 of 70

Question ID: 434371

An investor purchases 200 shares of Mertz, Inc. on margin. The shares are trading at \$40. Initial and maintenance margins are 50% and 25%. If the investor sells the stock when the price rises to \$50 at year-end, the return on the investment would be *closest* to:

- A) 20%.
- B) 50%.
- C) 25%.