Question #1 of 70

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

A) stop loss buy.

B) stop loss sell.

C) protective call.

Question #2 of 70

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

A) Investors are well informed about the risk and return of various investments.

B) There are no barriers to the flow of complete information to the financial markets.

C) Financial markets are frictionless (i.e., free of taxes or transactions costs).

Question #3 of 70

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

A) Stocks can only be shorted in a down market.

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

C) The short seller must pay all dividends due to the lender of the shorted stock.

Question #4 of 70

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 #5 of 70

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

A) allocating capital to its most productive uses and determining the supply of money.

B) determining the supply of money and determining equilibrium interest rates.

C) determining equilibrium interest rates and allocating capital to its most productive uses.

Question #6 of 70

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

A) Securitizer.

B) Block broker.

C) Investment bank.

Question #7 of 70

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 #8 of 70

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 #9 of 70

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 #10 of 70

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) $20.00.

C) $53.33.

Question #11 of 70

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

A) clearing and validity instructions.

B) validity and execution instructions.

C) execution and clearing instructions.

Question #12 of 70

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) 20%.

B) 40%.

C) 10%.

Question #13 of 70

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) 15.75%

B) 53.75%

C) 39.55%

Question #14 of 70

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

A) quote-driven market.

B) order-driven market.

C) brokered market.

Question #15 of 70

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

A) arbitrageurs.

B) block brokers.

C) securitizers.

Question #16 of 70

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:

	All-cash	50% margin
A)	20%	40%
B)	40%	80%
C)	20%	80%

Question #17 of 70

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

A) Arbitrageurs buy securities with the anticipation that they will be able to sell the securities in the future at higher prices.

B) Brokers seek out traders that are willing to take the opposite sides of their clients' orders.

C) Dealers buy a security in one market and simultaneously sell the same security in a different market.

Question #18 of 70

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) $112.

C) $48.

Question #19 of 70

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?

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

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Question #20 of 70

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)	15.6%	$25.60
B)	6.3%	$25.60

C) 15.6% $17.07

Question #21 of 70

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

A) The Federal Reserve sets the maximum maintenance margin.

B) The purpose of the maintenance margin requirement is to protect the broker in the event of a large stock decline.

C) Generally the maintenance margin requirement is lower than the initial margin requirement.

Question #22 of 70

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) -17%.

B) -40%.

C) -35%.

Question #23 of 70

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

A) the limit is between the best bid and the best ask.

B) the limit is below the best bid.

C) it reaches the exchange floor and is entered in the limit book.

Question #24 of 70

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 #25 of 70

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

A) Initial public offerings (IPOs) are sold in the secondary market.

B) A market that features low transactions costs is said to have operational efficiency.

C) In a continuous market, a security can trade any time the market is open.

Question #26 of 70

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) 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

C) A limit buy order and a stop buy order are both placed below the current market price.

Question #27 of 70

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

A) financial assets.

B) real assets.

C) physical assets.

Question #28 of 70

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.

Question #29 of 70

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)	33%	$15.43
B)	83%	$15.43
C)	83%	$21.00

Question #30 of 70

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.

Question #31 of 70

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

A) investors with liquidity.

B) firms with greater access to external capital.

C) regulators with information about market participants.

Question #32 of 70

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

A) less liquidity.

B) greater counterparty risk.

C) standardized terms.

Question #33 of 70

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) 100%.

C) 200%.

Question #34 of 70

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 #35 of 70

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) 25%.

C) 50%.

Question #36 of 70

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) An investment in an apartment complex.

B) Holdings of foreign currencies.

C) Common stock of a technology company.

Question #37 of 70

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) 19.45.

B) 15.25.

C) 17.33.

Question #38 of 70

An investor can profit from a stock price decline by:

A) placing a stop buy order.

B) selling short.

C) purchasing a call option.

Question #39 of 70

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) both of these objectives.

C) only one of these objectives

Question #40 of 70

An objective of financial market regulation is to:

A) reduce information gathering costs by requiring common financial reporting standards.

B) ensure that inside information is made public in a timely manner.

C) prevent uninformed investors from participating in financial markets.

Question #41 of 70

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

A) Primary markets are where stocks trade while secondary markets are where bonds trade.

B) 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.

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.

Question #42 of 70

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

A) Limit buy order at 38 when the best bid is 39.

B) Limit sell order at 38 when the best ask is 39.

C) Market sell order when the best bid is 38 and the best ask is 39.

Question #43 of 70

A stock's limit order book is as follows:

Bid Size	Limit Price (£)	Offer Size
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) making a new market.

C) an iceberg order.

Question #44 of 70

The initial margin is the:

A) equity represented in the margin account at any time.

B) amount of cash that an investor must maintain in his/her margin account.

C) minimum amount of funds that must be supplied when purchasing a security on margin.

Question #45 of 70

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

A) private security.

B) public security.

C) primary market security.

Question #46 of 70

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) $16.67.

B) $30.00.

C) $21.88.

Question #47 of 70

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 #48 of 70

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.

Question #49 of 70

Stop loss sell orders are:

A) placed to protect a short position.

B) executed on an uptick only.

C) placed to protect the gains on a long position.

Question #50 of 70

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 initial margin requirement.

C) No, he meets the minimum maintenance margin requirement.

Question #51 of 70

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

A) commodities.

B) bonds.

C) stocks.

Question #52 of 70

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

A) operationally efficient.

B) informationally efficient.

C) allocationally efficient.

Question #53 of 70

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

A) Preserve or increase liquidity.

B) Educate unsophisticated investors.

C) Limit downside risk to investors.

Question #54 of 70

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 #55 of 70

Equity securities *most likely* include:

A) commercial paper and repurchase agreements.

B) preferred stock and certificates of deposit.

C) common stock and warrants.

Question #56 of 70

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 #57 of 70

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

A) primary markets.

B) capital markets.

C) money markets.

Question #58 of 70

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

A) brokered market.

B) order-driven market.

C) quote-driven market.

Question #59 of 70

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) primary market.

B) capital market.

C) money market.

Question #60 of 70

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

A) Maintenance margin refers to the amount of funds the investor can borrow.

B) Margin accounts can be used to purchase securities by borrowing part of the purchase price.

C) The total equity in the margin account cannot fall below the initial margin requirement.

Question #61 of 70

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

A) Commercial paper.

B) Currency swaps.

C) Depository receipts.

Question #62 of 70

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

A) informational efficiency.

B) operational efficiency.

C) allocational efficiency.

Question #63 of 70

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

A) The short seller may withdraw the proceeds of the short sale.

B) The seller must return the securities at the request of the lender.

C) The seller must inform their broker that the order is a short sale before completing the transaction.

Question #64 of 70

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

A) Diversification.

B) Origination.

C) Risk Bearing.

Question #65 of 70

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) –40%.

B) –30%.

C) –10%.

Question #66 of 70

A short seller:

A) does not receive the dividends.

B) often also places a stop loss sell order.

C) loses if the price of the stock sold short decreases.

Question #67 of 70

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

A) Continuous markets are markets where trades occur 24 hours per day.

B) Setting a negotiated price to clear the market is a method used to set the closing price in major continuous markets.

C) Call markets are markets in which the stock is only traded at specific times.

Question #68 of 70

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

A) limit order.

B) stop order.

C) market order.

Question #69 of 70

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) $3,000.

B) $2,000.

C) $4,000.

Question #70 of 70

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) $60,000.

C) $36,000.