FINRA-SERIES-6 Q&As

FINRA Investment Company and Variable Contracts Products Representative Examination (IR)

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QUESTION 1

A bond has a face value of $1,000, matures in 10 years, and pays an 8% coupon, with interest paid semiannually. If the bond is priced to yield 8.8%, it is selling:

A. at par.

B. at a discount.

C. at a premium.

D. at its maturity value.

Correct Answer: B

Explanation: If the bond is priced to yield 8.8%, it is selling at a discount. Its nominal yield is the same as its coupon rate, 8%, which is what it would yield if it were selling at its par value, which is the same as its maturity value and its face value--$1,000. In order to be yielding more than this, the bond has to be selling for less than its face value, such that investors are also getting a return from capital gains. A bond that is selling below its face value is said to be selling at a discount.

QUESTION 2

Which of the following investments would have the least interest rate risk?

A. a 6-month Treasury bill

B. a 20-year, AAA-rated municipal bond

C. a 3-year Treasury STRIP

D. a 15-year, AAA-rated corporate bond

Correct Answer: A

Explanation: A 6-month Treasury bill has the least interest rate risk of the choices listed. It has the shortest duration, and the shorter duration, the less the price of the bond fluctuates with changes in the interest rates.

QUESTION 3

Which of the following securities would be exempt from SEC registration requirements?

I. a 15-year bond issued by the state of Colorado

II. an issue of preferred stock that has an aggregate par value of $5 million

III.

an issue of commercial paper that has a 5-month maturity

A.

I only

B.

III only

C.

I and III only

D.

I and II only

Correct Answer: C

Explanation: Only Selections I and III are exempt from SEC registration requirements. The bond issued by Colorado is exempt because bonds issued by a government body are exempt from registration. The issue of commercial paper is exempt because securities with less than 270 days to maturity are exempt from registration.

QUESTION 4

Mr. Fast Lane met an early death at the age of 42. Mr. Lane had been making contributions to a variable annuity contract for several years, and at the time of his death, his contributions totaled $25,000. Although the value of the contract had at one time reached $40,000, earnings included, a downturn in the market has resulted in a contract value of only $23,000.

How much will Mr. Lane\\'s beneficiaries receive as the death benefit associated with this contract under these circumstances?

A. nothing, since the contract now has a value that is less than Mr. Lane\\'s total contributions

B. the average of what its value once was and what it is today: $31,500

C. $25,000

D. $23,000

Correct Answer: C

Explanation: Since Mr. Lane died while he was still making contributions, his beneficiaries will receive $25,000. If the annuitant dies during the accumulation period, the death benefit is equal to the value of the contract or the total of the contributions, whichever is greater.

QUESTION 5

The mortality guarantee of a variable annuity contract:

A. guarantees a fixed death benefit amount will pay to your beneficiaries upon your death.

B. guarantees that you can receive a monthly check of a specified amount as long as you live.

C. guarantees that both you and a person you specify as your beneficiary will continue to receive payments as long as one of the two of you is alive.

D. None of the above is a true statement about the mortality guarantee of a variable annuity contract.

Correct Answer: D

Explanation: None of the choices provided is a true statement about the mortality guarantee of a variable annuity contract. The mortality guarantee guarantees that you can receive a monthly check for as long as you live, but it does not guarantee that the check will be for a specified amount.