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FINRA General Securities Representative Examination (GS)





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QUESTION 1

At the time it underlying stock is trading at 48, Bubba buys a listed call option with a \$50 strike price for \$300. At what minimum price must that stock trade for Bubba to recover his investment (ignoring commission and taxes)?

- A. \$45
- B. \$48
- C. \$51
- D. \$53

Correct Answer: D

\$53. The breakeven price on the call is the premium plus the strike price. Since the premium is \$3 per share, the breakeven price is \$53.

QUESTION 2

What percentage load is associated with a mutual fund quoted 16.60-18.04?

- A. 8.7%
- B. 9%
- C. 8%
- D. cannot be determined from this information

Correct Answer: C

8%. The sales charge in this case is \$1.44. Dividing that into the offering price of \$18.04 results in 8%.

QUESTION 3

Bubba buys a 5% municipal bond maturing in 15 years that is trading at a market price of 85. What is the yield to maturity using the "rule of thumb" method?

- A. 5.00%
- B. 5.88%
- C. 5.10%
- D. 6.49%

Correct Answer: D

6.49%. Divide the discount from par value of \$150 (\$1,000 - \$850) by the number of years to maturity (15) to determine the annual discount. Add the result of \$10 to the annual interest (\$50) to determine the total annual return. Divide the



result of \$60 by the average of the current price (85) and par (100). The result is 60 divided by 92.5, which equals 6.49%.

QUESTION 4

Big Easy Investment Banking, Inc., participates in a Western account underwriting of \$10 million of municipal bonds by agreeing to underwrite 10% of the issue. One week later, \$4 million remains unsold but Big Easy has distributed \$1.5 million of bonds.

What is the liability of Big Easy remaining in the account?

- A. \$0
- B. \$400,000
- C. \$600,000
- D. \$1,000,000

Correct Answer: D

\$1,000,000. In a Western account, each underwriter has divided liability and each is responsible only for his respective part. In this case, Big Easy is responsible for 10% of \$10,000,000 - or \$1,000,000.

QUESTION 5

Bubba Corporation has 3,500,000 shares of common stock outstanding and its trading volume in the few weeks has been as follows: Week 1 - 43,000 Week 2 - 30,900 Week 3 - 37,500 Week 4 - 42,600 Week 5 - 33,000 (the most recent week)

If an affiliated person wanted to liquidate some of his holding of 100,000 shares pursuant to SEC Rule 144, how many shares could he sell?

- A. 35,000
- B. 36,000
- C. 37,400
- D. 38,500

Correct Answer: B

36,000. Under Rule 144 up to one percent of the outstanding shares or the average weekly volume for the preceding four weeks, whichever is greater. The total volume for the last four weeks was 144,000 shares. The average is therefore 36,000 shares. This is greater than one percent of the shares outstanding (35,000).