Question #1 of 73

Question ID: 1573817

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

A) standardized terms.

B) less liquidity.

C) greater counterparty risk.

Question #2 of 73

Question ID: 1573838

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) Leverage ratio is 3:1.

B) Margin call price is $36.

C) Return on investment is 50%.

Question #3 of 73

Question ID: 1573860

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

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

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

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

Question #4 of 73

Question ID: 1573818

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

A) financial assets.

B) physical assets.

C) real assets.

Question #5 of 73

Question ID: 1573843

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 #6 of 73

Question ID: 1573830

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 #7 of 73

Question ID: 1573826

Which of the following statements about short sales is *least accurate*?

A) Proceeds from short sales cannot be withdrawn from the account.

B) The short seller is required to replace the borrowed securities within six months of a short sale.

C) The short seller must pay the lender of the stock any dividends paid by the company.

Question #8 of 73

Question ID: 1573809

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 #9 of 73

Question ID: 1573877

An objective of financial market regulation is to:

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

B) prevent uninformed investors from participating in financial markets.

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

Question #10 of 73

Question ID: 1573836

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) 73.8%.

B) 60.6%.

C) 67.7%.

Question #11 of 73

Question ID: 1573844

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) No, he meets the minimum initial margin requirement.

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

C) Yes, he does not meet the minimum maintenance margin requirement.

Question #12 of 73

Question ID: 1581357

A trader enters a limit order to buy 10,000 shares as a day order. The "day order" instruction is *most accurately* referred to as:

A) a validity instruction.

B) a clearing instruction.

C) an execution instruction.

Question #13 of 73

Question ID: 1573870

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.

Question #14 of 73

Question ID: 1573865

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

A) New issues of government securities can be sold on the primary market.

B) Prevailing market prices are determined by primary market transactions and are used in pricing new issues.

C) Secondary market transactions occur between two investors and do not involve the firm that originally issued the security.

Question #15 of 73

Question ID: 1573820

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 #16 of 73

Question ID: 1573874

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

A) allocational efficiency.

B) informational efficiency.

C) operational efficiency.

Question #17 of 73

Question ID: 1573847

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) 39.55%.

C) 53.75%.

Question #18 of 73

Question ID: 1573859

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 order can be executed.

C) the order is entered in the limit book.

Question #19 of 73

Question ID: 1573833

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) $60,000.

B) $36,000.

C) $24,000.

Question #20 of 73

Question ID: 1573854

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

A) execution and clearing instructions.

B) validity and execution instructions.

C) clearing and validity instructions.

Question #21 of 73

Question ID: 1573845

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) $20.00.

B) $40.00.

C) $53.33.

Question #22 of 73

Question ID: 1573861

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) an iceberg order.

B) behind the market.

C) making a new market.

Question #23 of 73

Question ID: 1573850

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) –10%.

C) –30%.

Question #24 of 73

Question ID: 1573829

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) -35%.

C) -40%.

Question #25 of 73

Question ID: 1573848

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) 100%.

B) 200%.

C) 50%.

Question #26 of 73

Question ID: 1573840

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

A) $16.67.

B) $21.88.

C) $6.25.

Question #27 of 73

Question ID: 1573879

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

A) Limit downside risk to investors.

B) Preserve trust in financial markets.

C) Educate unsophisticated investors.

Question #28 of 73

Question ID: 1573852

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

A) protective call.

B) stop loss buy.

C) stop loss sell.

Question #29 of 73

Question ID: 1573868

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

A) order-driven market.

B) quote-driven market.

C) brokered market.

Question #30 of 73

Question ID: 1573875

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

A) allocationally efficient.

B) operationally efficient.

C) informationally efficient.

Question #31 of 73

Question ID: 1573832

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) $2,000.

B) $3,000.

C) $4,000.

Question #32 of 73

Question ID: 1573853

Stop loss sell orders are:

A) executed on an uptick only.

B) placed to protect a short position.

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

Question #33 of 73

Question ID: 1573878

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) both of these objectives.

B) neither of these objectives.

C) only one of these objectives.

Question #34 of 73

Question ID: 1573869

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

A) In call markets, there is only one negotiated price set to clear the market for a given stock.

B) In continuous markets, prices are set only by the auction process.

C) Securities exchanges may be structured as call markets or continuous markets.

Question #35 of 73

Question ID: 1573814

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) Foreign currencies.

B) Common stock of a technology company.

C) An apartment complex.

Question #36 of 73

Question ID: 1573867

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) regulators with information about market participants.

C) investors with liquidity.

Question #37 of 73

Question ID: 1573837

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)	20%	80%
C)	40%	80%

Question #38 of 73

Question ID: 1573822

An investor sells a stock short. To protect against a large loss on this position, the investor is *most likely* to:

A) buy a put option.

B) place a stop buy order.

C) set a limit price on the order to sell short.

Question #39 of 73

Question ID: 1573851

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 #40 of 73

Question ID: 1573811

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

A) money markets.

B) primary markets.

C) forward markets.

Question #41 of 73

Question ID: 1573828

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)	15.6%	$17.07
C)	6.3%	$25.60

Question #42 of 73

Question ID: 1573835

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 #43 of 73

Question ID: 1573812

Among the classifications of investment assets, "real assets" *most likely* include:

A) foreign currencies.

B) durable equipment.

C) industrial stocks.

Question #44 of 73

Question ID: 1573873

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

A) Reliable information is available on price and volume.

B) Prices change significantly from one transaction to the next.

C) Prices adjust quickly when new information becomes available.

Question #45 of 73

Question ID: 1573849

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) 20%.

B) 25%.

C) 40%.

Question #46 of 73

Question ID: 1573866

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

A) A primary market is a market in which new securities are sold.

B) The proceeds from a sale in the secondary market go to the issuer.

C) The primary market benefits from the liquidity provided by the secondary market.

Question #47 of 73

Question ID: 1573827

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 #48 of 73

Question ID: 1573807

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

A) allocating financial resources to their most productive uses.

B) bringing together savers and borrowers.

C) preventing investors from generating abnormal profits by trading on information.

Question #49 of 73

Question ID: 1573815

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

A) Commercial paper.

B) Currency swaps.

C) Depository receipts.

Question #50 of 73

Question ID: 1573876

With respect to a well-functioning securities market, a market that exhibits operational efficiency will have:

A) price continuity.

B) low transaction costs.

C) rapid price reactions to new information.

Question #51 of 73

Question ID: 1573855

Evelyn Stram, CFA, places a good-till-cancelled limit buy order at 86 for a stock. Stram's order specifies:

A) validity and execution instructions.

B) execution and clearing instructions.

C) clearing and validity instructions.

Question #52 of 73

Question ID: 1573821

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 #53 of 73

Question ID: 1573825

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

A) Writer of a call option.

B) Writer of a put option.

C) Buyer of a put option.

Question #54 of 73

Question ID: 1573872

An electronic crossing network is *best* described as:

A) an order-driven market.

B) a quote-driven market.

C) a price-driven market.

Question #55 of 73

Question ID: 1573808

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

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

Question #56 of 73

Question ID: 1573871

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

A) brokered market.

B) order-driven market.

C) quote-driven market.

Question #57 of 73

Question ID: 1573839

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

Question #58 of 73

Question ID: 1573846

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%.

Question #59 of 73

Question ID: 1573858

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

A) 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.

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

C) Secondary markets, such as the over-the-counter (OTC) market, provide liquidity and price continuity.

Question #60 of 73

Question ID: 1573841

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) 17.33.

B) 15.25.

C) 19.45.

Question #61 of 73

Question ID: 1573816

Equity securities *most likely* include:

A) preferred stock and certificates of deposit.

B) common stock and warrants.

C) exchange-traded funds.

Question #62 of 73

Question ID: 1573864

A primary market transaction involves:

A) the sale of new securities to investors.

B) investment-grade bonds or preferred stocks.

C) direct trading of securities between institutional investors.

Question #63 of 73

Question ID: 1573824

A short seller:

A) does not receive the dividends.

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

C) often also places a stop loss sell order.

Question #64 of 73

Question ID: 1573823

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

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

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

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

Question #65 of 73

Question ID: 1573810

Jerry Slotz enters an exchange-traded contract that obligates him to purchase a specific amount of an asset on a future date. The contract is *most likely*:

A) a futures contract.

B) a forward contract.

C) an option contract.

Question #66 of 73

Question ID: 1573819

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 #67 of 73

Question ID: 1573813

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) capital market.

B) money market.

C) primary market.

Question #68 of 73

Question ID: 1573831

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 73

Question ID: 1573857

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

A) market order.

B) stop order.

C) limit order.

Question #70 of 73

Question ID: 1573834

The initial margin is the:

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

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

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

Question #71 of 73

Question ID: 1573842

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) $48.

B) $80.

C) $112.

Question #72 of 73

Question ID: 1573863

Compared to a market order to sell, a limit order to sell will specify:

A) a price that can be higher or lower than the current market price.

B) a minimum price equal to or less than the current market price.

C) a maximum price above the current market price.

Question #73 of 73

Question ID: 1573862

Which of the following limit orders is *least likely* to be filled?

A) Inside-the-market limit sell order.

B) Aggressively priced limit buy order.

C) Behind-the-market limit buy order.