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QUESTION 1

Which of the following is true of treasury stock?

- A. it has voting rights
- B. it is entitled to receive dividends
- C. it is stock that has not been issued
- D. it is stock that has been reacquired by the issuer

Correct Answer: D

it is stock that has been reacquired by the issuer. Treasury stock has no voting rights and is not entitled to receive dividends. The shares have been issued but are no longer outstanding in the market.

QUESTION 2

Bubba sells short 100 XYZ at \$60 and makes the required Regulation T deposit of 50%. XYZ then rises in price to \$65. At this point what is the credit balance?

- A. \$2,500
- B. \$3,500
- C. \$6,000
- D. \$9,000

Correct Answer: D

\$9,000. Credit balances in short accounts do not change because of fluctuation in market prices. The initial deposit of \$3,000 ($\$6,000 \times 50\%$) plus the \$6,000 from the short sale leave a credit balance of \$9,000.

QUESTION 3

What Federal Reserve Board regulation governs the extension of securities-related credit by banks?

- A. Regulation G
- B. Regulation T
- C. Regulation U
- D. Regulation X

Correct Answer: C

Regulation U. Regulation T is the extension of credit by broker/dealers. Reg U relates to the extension of credit by banks on securities.

QUESTION 4

Bubba owns a subordinated debenture in a company that is liquidating. When will he get paid?

- A. after the company pays its outstanding bills, but before paying bank loans
- B. after the bills are paid and the bank is paid, but before the preferred shareholders
- C. before the holders of secured debt
- D. after the shareholders of preferred stock

Correct Answer: B

after the bills are paid and the bank is paid, but before the preferred shareholders. As a creditor, Bubba is paid before any of the shareholders. But his position is subordinated to other creditors, like the bank and accounts payable.

QUESTION 5

A company earns \$6 per share and pays out 20% in common stock dividends. What does the stock yield if it sells at \$30 per share?

- A. 10%
- B. 4%
- C. 2.5%
- D. 6%

Correct Answer: B

4%. The dividend is \$1.20 per share ($\$6 \times 20\%$). Divide this by the stock price to obtain the yield.

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