

## CSC VOLUME ONE: Chapters 1 – 3, Test #1

1. Trades and other transactions are cleared and settled through which of the following organizations?
  - a) CDS Clearing and Depository Services
  - b) Canadian Investor Settlement Organization
  - c) Investment Industry Regulatory Organization of Canada
  - d) Canadian Investment Industry Clearing and Settlement Group
  
2. Another term for self-directed broker is...
  - a) retail broker.
  - b) discount broker.
  - c) integrated dealer.
  - d) investment broker.
  
3. Front office performs all staff functions pertaining directly to portfolio management activities and includes all of the following except...
  - a) Sales.
  - b) Trading.
  - c) Marketing.
  - d) Trade settlement.
  
4. Voting shares of large Schedule 1 banks must be widely held, with the control of any single shareholder or group restricted to no more than \_\_\_\_\_.
  - a) five percent.
  - b) ten percent.
  - c) twenty percent.
  - d) fifty percent.
  
5. Which of the following is *not* true about Schedule II Banks?
  - a) The deposits that they hold are eligible for deposit insurance provided by CDIC.
  - b) They may *not* engage in all the types of businesses permitted a Schedule I Bank.
  - c) They are incorporated and operate in Canada as federally regulated foreign bank subsidiaries.
  - d) They tend to derive their greatest share of revenue from retail banking and electronic financial services.
  
6. What is the *most* important aspect of the insurance business in Canada?
  - a) Underwriting.
  - b) Investment returns.
  - c) Collecting premiums.
  - d) Term and whole life insurance.

7. All of the following is true of the robo-advisor service except...
- a) portfolios are regularly balanced.
  - b) financial planning may be offered.
  - c) portfolios are built primarily with mutual funds.
  - d) portfolios are created using algorithms based on modern portfolio theory.
8. Which of the following *best* describes the relationship between direct and indirect investment?
- a) Direct investment occurs when savers directly buy securities issued by government and corporations, indirect investment occurs when those savers sell the securities to other savers.
  - b) Indirect investment occurs when the saver buys the securities issued by government and corporations, which in turn use the funds for direct investment in plant, equipment, etc.
  - c) Direct investment occurs when savers directly buy an ownership position from a corporation, indirect investment occurs when savers purchase debt securities from government or corporations.
  - d) There is no link between direct and indirect investment.
9. Which of the following are *not* structured products?
- a) Exchanged-traded funds
  - b) Principal-protected notes
  - c) Index-linked guaranteed investment certificates
  - d) All of the above are structured products.
10. Which of the following is *not* true with respect to Canadian Exchanges and the products that trade on them?
- a) The Toronto Stock Exchange (TSX) lists equities and some debt instruments.
  - b) The Montreal Exchange (Bourse de Montreal) trades all financial and equity futures and options.
  - c) ICE Futures Canada trades agricultural futures and options.
  - d) The TSX Venture Exchange trades junior securities, income trusts and ETFs.
11. In Ontario, trades in unlisted securities and unquoted securities are reported through the web-based system of the...
- a) Canada Unlisted Board.
  - b) CBID Institutional Group.
  - c) Alternative Trading Systems.
  - d) Unlisted securities and unquoted securities are *not* reported.

12. CanDeal was established to facilitate trading in...
- a) bonds.
  - b) options.
  - c) derivatives.
  - d) mutual funds.
13. Which group's mission is it to develop a national regulatory system that fosters fair, efficient, and vibrant capital markets?
- a) Canadian Securities Administrators
  - b) The Securities and Exchange Commission
  - c) Office of the Superintendent of Financial Institutions
  - d) Investment Industry Regulatory Organization of Canada
14. In its role of regulator, IIROC is *least* likely to perform which of the following functions?
- a) Registration
  - b) Enforcement
  - c) Financial compliance
  - d) IIROC performs all of the above.
15. Ms. Xu had \$1,250,000 in an Investment Account and \$700,000 in her RRSP account. According to CIPF guidelines, she would be covered for...
- a) \$1,000,000 in her Investment Account.
  - b) \$1,000,000 in her Investment Account or \$700,000 in her RRSP account.
  - c) \$1,000,000 in her Investment Account and \$700,000 in her RRSP account.
  - d) \$1,250,000 in her Investment Account and \$700,000 in her RRSP account.
16. CDIC insures eligible deposits up to \_\_\_\_\_ per deposit in each member institution.
- a) \$ 50,000
  - b) \$ 60,000
  - c) \$ 100,000
  - d) \$1,000,000
17. The Canadian securities industry follows a...
- a) rules-based regulatory model.
  - b) principles-based regulatory model.
  - c) mixed model divided equally between rules-based and principles-based.
  - d) neither a rules-based or principles-based model.

18. The general principle underlying Canadian Securities legislation is...
- a) caveat emptor – Let the buyer beware!
  - b) full, true, and plain disclosure of all pertinent facts.
  - c) approval of the investment merits of each class of securities.
  - d) providing investors the ability to sue if their investment dealer loses them money.
19. Compliance with gatekeeper obligations begins with the...
- a) Know Your Client (KYC) rule.
  - b) IIROC Client Relationship Model.
  - c) Investment Policy Statement (IPS).
  - d) Relationship Disclosure Document.
20. The relationship disclosure document that IIROC dealer members must provide clients is *least* likely to include information about...
- a) the types of products and services offered by the firm.
  - b) a description of all the reporting that the client will receive.
  - c) the process used by the firm to assess investment suitability.
  - d) the policies and procedures used by the firm to hire investment managers.
21. Conflicts of interest are *not* addressed by which of the following means?
- a) Denying the conflict.
  - b) Avoiding the conflict.
  - c) Disclosing the conflict.
  - d) Otherwise controlling the conflict situation.
22. CRM guidelines require that the suitability of an investment decision be conducted with all of the following trigger events *except*...
- a) when a trade is accepted.
  - b) when a recommendation is made.
  - c) when securities are transferred or deposited to an account.
  - d) All of the above events would trigger a suitability assessment.
23. The claim limit for arbitration is...
- a) \$ 100,000.
  - b) \$ 500,000.
  - c) \$1,000,000.
  - d) There is not limit for arbitration.

24. Front running is...

- a) another name for insider trading.
- b) short-selling without declaring the short sale.
- c) profitable trading based on enhanced analysis.
- d) whereby a registrant trades ahead of a known client.

25. According to the National Do Not Call List (DNCL), telemarketers and clients of telemarketers may not call any number that has been registered on the DNCL for more than \_\_\_\_\_.

- a) 7 days.
- b) 31 days.
- c) 60 days.
- d) 180 days.

## Chapters 1 – 3, Test #1 – Answers

- 1.A 1 – 4.
- 2.B 1 – 5.
- 3.D 1 – 6.
- 4.C 1 – 9.
- 5.B 1 – 10.
- 6.A 1 – 11.
- 7.C 1 – 13.
- 8.B 2 – 3.
- 9.A 2 – 6.
- 10.D 2 – 8/9.
- 11.A 2 – 10.
- 12.A 2 – 11.
- 13.A 3 – 3.
- 14.D 3 – 4/5.
- 15.C 3 – 6.
- 16.C 3 – 6.
- 17.B 3 – 8.
- 18.B 3 – 9.
- 19.A 3 – 11.
- 20.D 3 – 11.
- 21.A 3 – 12.
- 22.D 3 – 12.
- 23.B 3 – 12/13.
- 24.D 3 – 13.
- 25.B 3 – 14.

## CSC VOLUME ONE: Chapters 1 – 3, Test #2

1. What are the three categories of investment dealers that make up the Canadian Securities Industry?
  - a) retail, wholesale, and integrated
  - b) retail, wholesale, and institutional
  - c) retail, institutional, and integrated
  - d) retail, self-directed, and institutional
  
2. Smaller retail or institutional investment dealers are known as...
  - a) boutiques.
  - b) specialists.
  - c) broker-dealer firms.
  - d) broker-dealer agencies.
  
3. The Middle Office performs functions critical to the efficient operation of the firm and include all of the following *except*...
  - a) Legal
  - b) Audits
  - c) Marketing
  - d) Compliance
  
4. With *most* secondary trading of debt securities, the investment dealer acts as...
  - a) agent.
  - b) buyer.
  - c) seller.
  - d) principal.
  
5. Which of the following best describes what a Schedule I Bank is required to do in order to remain a Schedule I Bank?
  - a) Voting shares must be widely held, restricting control to any one shareholder or group to no less than 20%.
  - b) Voting shares must be widely held, restricting control to any one shareholder or group to no more than 20%.
  - c) Voting control must be restricted, with one Canadian-based shareholder or group holding at least 20% of the voting shares.
  - d) Voting control must be restricted, with one Canadian-based shareholder or group holding at least 50% of the voting shares.

6. Which of the following is *least* likely to be true about Schedule III banks?
- a) They are provincially regulated.
  - b) They are branches of foreign institutions.
  - c) They focus on corporate and institutional finance.
  - d) Their market share in Canada is less than the Schedule I Banks'.
7. Which of the following correctly portrays what banks that own insurance companies can do through their branch network?
- a) They can sell life insurance only.
  - b) They can sell property and casualty insurance only.
  - c) They can sell insurance related to loans and mortgages only.
  - d) They can sell all of the above types of insurance.
8. What is the *most* important distinction between self-directed brokerage and robo-advisors?
- a) Robo-advisors provide advice.
  - b) Robo-advisors charge lower commissions.
  - c) Robo-advisors offer a wider range of services.
  - d) Robo-advisors offer a wider range of products.
9. Which of the following are three important characteristics of capital?
- a) Mobile, scarce, and rare
  - b) Mobile, rare, and important
  - c) Mobile, scarce and important
  - d) Mobile, sensitive, and scarce
10. Pools of capital gathered from investors to buy securities according to a specific investment mandate are known as...
- a) managed funds.
  - b) structured funds.
  - c) managed products.
  - d) structured products.
11. Markets are *most* likely characterized as...
- a) primary and dealer markets.
  - b) primary and auction markets.
  - c) secondary and auction markets.
  - d) auction and dealer markets.



12. Three buy orders for ABC Security hit the market at 9:30:  
500 shares at \$10.12  
400 shares at \$10.10  
700 shares at \$10.07  
Three sell orders for ABC Security hit the market at 9:30:  
400 shares at \$10.12  
500 shares at \$10.13  
300 shares at \$10.15  
The bid-ask at 9:31 would *most likely* be...
- a) \$10.07 – \$10.15
  - b) \$10.07 – \$10.12
  - c) \$10.12 – \$10.13
  - d) \$10.12 – \$10.15
13. Which of the following is a derivatives exchange that provides contracts to participants in the North American energy markets?
- a) Nodal Exchange
  - b) ICE Futures Canada
  - c) Natural Gas Exchange
  - d) Aequitas NEO Exchange
14. What is another term for dealer markets?
- a) Listed markets
  - b) Unlisted markets
  - c) Network markets
  - d) Under-the-counter markets
15. Which of the following is *not* true about CanDeal?
- a) It is operated by the TMX group.
  - b) It is recognized as both an ATS and investment dealer.
  - c) It is a joint venture between Canada's six largest investment dealers.
  - d) It offers both institutional and retail investors access to Government securities and money market instruments.
16. Which of the following is true about CanPX?
- a) It is an ATS that operates two distinct fixed-income marketplaces.
  - b) It provides market data and a trading platform with access to multi-dealer competitive pricing.
  - c) The service covers Government of Canada bonds, Treasury Bills, and corporate bonds with investment grade rating.
  - d) It is a joint venture between several Canadian investment dealers and inter-dealer firms, and combines digital feeds from participating dealers.

17. Which of the following does OSFI regulate?
- i) Banks
  - ii) Investment dealers
  - iii) Insurance companies
  - iv) Trust and loan companies
- a) i), ii) & iv) only
  - b) i), ii) & iv) only
  - c) i), iii) & iv) only
  - d) i), ii), iii) & iv)
18. The function of CIPF is to safeguard investors...
- a) against the insolvency of member firms.
  - b) from unprofessional investment advisors.
  - c) from companies which disappoint investors with their income reports.
  - d) against losses suffered from premature redemptions of mutual fund units.
19. Which of the following phrases capture three of the four primary objectives in imposing regulation?
- a) Fairness, Economic growth, and Social objectives
  - b) Fairness, Economic growth, and Economic stability
  - c) Fairness, Economic growth, and Consumer protection
  - d) Economic stability, Social objectives, and Consumer protection
20. All of the following are basic methods the securities acts protect the investing public *except*...
- a) disclosure of necessary facts.
  - b) enforcement of laws and policies.
  - c) registration of dealers and advisors.
  - d) analysis of publicly traded securities.
21. Barbara Tan is a registered IA with Quint Securities. She has just moved from into a new house. With respect to the responsibility under the National Registration Database (NRD)...
- a) this should *not* be reported.
  - b) this may be reported but this is optional.
  - c) either Ms. Tan or Quint Securities should notify the applicable SROs.
  - d) both Ms. Tan and Quint Securities should notify the applicable SROs.

22. Which of the following is *not* true with respect to arbitration in the securities industry?
- a) It's a method of dispute resolution.
  - b) The arbitrator's decision is binding.
  - c) It's designed for claims of \$500,000 or less.
  - d) Clients who lose in arbitration may then sue the firm.
23. Which of the following is *least* likely to be true about the Ombudsman for Banking Services and Investments?
- a) It provides a prompt and impartial resolution.
  - b) It is independent of the financial services industry.
  - c) The process is binding for both the investor and financial services provider.
  - d) It investigates customer complaints against financial services providers.
24. All of the following are examples of unethical practices *except*...
- a) using high-pressure or otherwise undesirable selling techniques.
  - b) trading in one's own account after effecting the same trade for a client.
  - c) making a fictitious trade that involves no change in beneficial ownership.
  - d) entering, or attempting to enter, into any arrangement to sell and repurchase a security in an effort to manipulate the market.
25. Which of the following organizations has established rules that telemarketers and the organizations that hire them must follow?
- a) OSFI
  - b) CRTC
  - c) IIROC
  - d) DNCL

## Chapters 1 – 3, Test #2 – Answers

- 1.C 1 – 5/6.
- 2.A 1 – 6.
- 3.C 1 – 6.
- 4.D 1 – 7.
- 5.B 1 – 9/10.
- 6.A 1 – 10.
- 7.C 1 – 11.
- 8.A 1 – 13.
- 9.D 2 – 3.
- 10.C 2 – 6.
- 11.D 2 – 7.
- 12.C 2 – 7/8.
- 13.A 2 – 9.
- 14.B 2 – 9.
- 15.D 2 – 11.
- 16.D 2 – 11.
- 17.C 3 – 5.
- 18.A 3 – 6.
- 19.D 3 – 8.
- 20.D 3 – 9.
- 21.D 3 – 10.
- 22.D 3 – 12/13.
- 23.C 3 – 13.
- 24.B 3 – 13/14.
- 25.B 3 – 14.

## CSC VOLUME ONE: Chapters 4 & 5, Test #1

1. Microeconomics would be *least* likely to examine...
  - a) how minimum wage laws affect the supply of labour.
  - b) if higher taxes on alcohol would impact the tourism industry.
  - c) the impact of higher interest rates on investment in capital equipment.
  - d) the relationship between tuition costs and the decision to attend university versus college.
  
2. The value of all goods and services produced in a country in a year is known as...
  - a) Net National Product
  - b) Net Domestic Product
  - c) Gross National Product
  - d) Gross Domestic Product
  
3. Assume that productivity growth exceeds increases in the unit cost of production. Each of the following is likely *except*...
  - a) prices will fall.
  - b) corporate profits will increase.
  - c) more goods and services will be sold.
  - d) there will be a cycle of demand-pull inflation.
  
4. "Inflation is stable... Corporate profits are rising and new business start-ups outnumber bankruptcies"... describes which phase of the business cycle?
  - a) expansion
  - b) peak
  - c) contraction
  - d) trough
  
5. Housing starts and manufacturers' new orders are examples of...
  - a) leading indicators.
  - b) co-incident indicators.
  - c) lagging indicators.
  - d) the Composite Index.
  
6. All of the following are considered lagging indicators *except*...
  - a) inflation.
  - b) labour costs.
  - c) unemployment.
  - d) personal income.

7. The official Statistics Canada definition of a recession is...
- a) a 5% drop in economic activity.
  - b) two consecutive quarters of declining real GDP.
  - c) two consecutive quarters of declining nominal GDP.
  - d) None of the above.
8. Which of the following are the two key indicators that describe the labour market?
- a) Participation rate and unemployment rate
  - b) Employment rate and unemployment rate
  - c) Working-age population and participation rate
  - d) Working-age population and unemployment rate
9. There are four general types of unemployment: Cyclical, seasonal, frictional and structural. Which of the following statements are true about them?
- i) Structural unemployment may result from a conscious choice about wages
  - ii) Cyclical unemployment rises during the expansion phase of the business cycle
  - iii) Frictional unemployment should be understood as a normal part of a healthy economy
- a) i) and ii) only
  - b) i) and iii) only
  - c) ii) and iii) only
  - d) i), ii) and iii)
10. The natural unemployment rate is often viewed as that level of unemployment that is...
- a) impossible to achieve.
  - b) consistent with stable inflation.
  - c) where the economy is operating at full capacity.
  - d) consistent with zero structural and frictional unemployment.
11. Which of the following is *not* true with respect to factors that affect interest rates?
- a) Higher inflation results in higher real interest rates.
  - b) The greater the default risk, the higher the interest rates.
  - c) An increase in the savings rate will lower interest rates.
  - d) A large government deficit raises the demand for capital.

12. Higher interest rates affect the economy in all the following ways *except*...
- a) mortgage payments will decline.
  - b) savers enjoy higher interest income.
  - c) the cost of capital increases for business.
  - d) consumers are discouraged from buying homes and other durable goods.
13. The CPI stands for the \_\_\_\_\_ and is a measure of the \_\_\_\_\_ in Canada.
- a) Cost of Products... spending power
  - b) Canadian Price Index... cost of living
  - c) Consumer Price Index... cost of living
  - d) Customer Price Index.... real GDP growth
14. At the end of 2016, the CPI stood at 110. At the end of 2017, it was 115. Inflation was *closest* to...
- a) 4.6%
  - b) 4.8%
  - c) 5.0%
  - d) Insufficient information
15. Inflation that occurs due to shocks from the supply side of the economy is known as...
- a) cost-pull inflation.
  - b) cost-push inflation.
  - c) output gap inflation.
  - d) demand-pull inflation.
16. The Phillips curve says...
- a) lowering inflation means sacrificing actual GDP.
  - b) lowering inflation means sacrificing potential GDP.
  - c) lowering inflation means lowering economic growth.
  - d) lowering inflation means increasing unemployment.
17. The *most* important component of the current account is...
- a) strong demand.
  - b) investment income.
  - c) merchandise trade.
  - d) taxes and import duties.

18. If Canada is running a deficit in its current account, this means...
- a) the nation is *not* benefiting from trade.
  - b) the nation is running a deficit in its capital account.
  - c) the nation is running a surplus in its capital account.
  - d) the balance of payments is in a state of disequilibrium.
19. The Canadian and US dollars are trading at par. If inflation in the United States is expected to be higher than in Canada over the next ten years, we would expect that...
- a) interest rates will be higher in the US and its currency will appreciate.
  - b) interest rates will be higher in the US and its currency will depreciate.
  - c) interest rates will be lower in the US and its currency will appreciate.
  - d) interest rates will be higher in the US and its currency will depreciate.
20. In a floating exchange rate system, the value of a currency is determined by...
- a) market forces.
  - b) the Central Bank.
  - c) the Federal Government.
  - d) the International Monetary Fund.
21. All of the following are major functions of the Bank of Canada *except*...
- a) to conduct monetary policy.
  - b) to issue and remove bank notes.
  - c) to prepare balanced federal budgets.
  - d) to act as the government's fiscal agent.
22. The overnight rate operates within a band of \_\_\_\_ basis points.
- a) 25
  - b) 50
  - c) 100
  - d) 200



23. Special PRAs or SPRAs are used by the Bank of Canada...
- a) to narrow the limit of the operating band.
  - b) to relieve undesired upward pressure on overnight financing rates.
  - c) to relieve undesired downward pressure on overnight financing rates.
  - d) to influence call loans and the interbank deposit rates through the large value transfer system.
24. A redeposit means...
- a) that the Chartered Banks are redepositing money with the Bank of Canada which puts upward pressure on interest rates.
  - b) that the Chartered Banks are redepositing money with the Bank of Canada which puts downward pressure on interest rates.
  - c) that the Bank of Canada is redepositing money with the Chartered Banks which puts downward pressure on interest rates.
  - d) that the Bank of Canada is redepositing money with the Chartered Banks which puts upward pressure on interest rates.
25. Which of the following is *least* likely to be understood as a disadvantage associated with monetary policy?
- a) It can be difficult to target a specific region.
  - b) Tax increases and government spending are unpopular.
  - c) If interest rates are already very low, lowering them even more may not have any impact.
  - d) Lowering interest rates may *not* have any impact if the consumer doesn't feel confident enough to spend.

## Chapters 4 & 5, Test #1 – Answers

- 1.C 4 – 3/4.
- 2.D 4 – 7.
- 3.D 4 – 8.
- 4.A 4 – 9.
- 5.A 4 – 11.
- 6.D 4 – 12.
- 7.D 4 – 12.
- 8.A 4 – 13.
- 9.B 4 – 16.
- 10.C 4 – 16.
- 11.A 4 – 17.
- 12.A 4 – 18.
- 13.C 4 – 19/20.
- 14.A 4 – 19/20.  
 $(115 - 110)/110 = 4.6\%$
- 15.B 4 – 22.
- 16.D 4 – 22.
- 17.C 4 – 23.
- 18.C 4 – 23.
- 19.B 4 – 23/25.
- 20.A 4 – 23/25.
- 21.C 5 – 7.
- 22.B 5 – 9.
- 23.B 5 – 10.
- 24.C 5 – 11.
- 25.B 5 – 13.

## CSC VOLUME ONE: Chapters 4 & 5, Test #2

1. Market equilibrium is an important concept in the stock market because...
  - a) the supply of a given stock is unlimited.
  - b) the demand for a given stock will *not* fluctuate in the short run.
  - c) the demand for a given stock will *not* fluctuate in the long run.
  - d) this establishes the price at which a stock will be exchanged at any point in time.
  
2. Nominal GDP will *always* exceed Real GDP unless...
  - a) there is inflation in the system.
  - b) there is deflation in the system.
  - c) the constant dollar approach is used.
  - d) the constant dollar approach is *not* used.
  
3. Which of the following is *least* likely to have an impact on a country's GDP growth?
  - a) Increases in population.
  - b) Improvements in technology.
  - c) Increases in the capital stock.
  - d) Increases in government spending.
  
4. If productivity growth exceeds the increases in the cost of production, all of the following are true *except*...
  - a) this tends to have a deflationary effect.
  - b) this tends to have an inflationary effect.
  - c) firms enjoy higher profit margins in the short run.
  - d) consumers enjoy lower prices in the long run.
  
5. "Labour and product shortages cause wage increases... interest rates rise and bond prices fall... stock prices fall and stock market activity declines..." This describes which phase of the business cycle?
  - a) trough
  - b) recession or contraction
  - c) recovery
  - d) peak
  
6. Housing starts and stock prices are two important...
  - a) leading indicators.
  - b) co-incident indicators.
  - c) lagging indicators.
  - d) determinants of interest rates.

7. Statistics Canada divides the working age population into which of the following three groups?
- a) Employed, Unemployed, Retired
  - b) Employed, Unemployed, Discouraged workers
  - c) Participation Group, Unemployed Group, Retired
  - d) Unable to work, Not working by choice, Labour Force
8. If unemployment increases by the same amount that employment decreases...
- a) the participation rate will increase.
  - b) the participation rate will decrease.
  - c) the participation rate will be unaffected.
  - d) either a) or b) depending on the phase of the business cycle.
9. Which of the following is/are *not* true with respect to unemployment?
- i) Cyclical unemployment tends to rise during the expansion phase of the business cycle.
  - ii) Frictional unemployment is *not* a normal part of a healthy economy.
  - iii) Structural unemployment typically leads to shorter periods of unemployment than frictional unemployment.
  - iv) The distinction between frictional and structural unemployment is sometimes difficult to determine.
- a) i) & ii)
  - b) i) & iii)
  - c) i), ii) & iii)
  - d) i), ii), iii) & iv)
10. Interest rates are currently being raised in the United States of America. As a result, the Canadian economy should be impacted in all of the following ways *except*...
- a) demand for interest-rate sensitive products like automobiles should be expected to decrease.
  - b) Canadian bonds should be expected to decline in value.
  - c) American consumers will have to pay more to service their household debt, which means a decline in discretionary spending on goods and services made in Canada.
  - d) the Canadian dollar should be expected to appreciate.

11. Inflation is generally bad for the economy. However, which of the following individuals or institutions might actually benefit from a high inflation environment?
- a) A senior citizen on a fixed income.
  - b) A government that has issued a great deal of long-term, fixed-rate debt.
  - c) A business that sells a product whose demand is highly price-sensitive.
  - d) A company which has borrowed a great deal of money on a short-term basis.
12. The price of oil has increased significantly in the past twelve months. An economist would conclude that...
- a) this must be inflationary.
  - b) this must be inflationary only if the Consumer Price Index (CPI) has increased over this period of time.
  - c) this could be inflationary or just a one-time jump in price, reflecting the increased scarcity of oil.
  - d) this could *not* be inflationary because a barrel of oil is *not* one of the 600 products from which the CPI is calculated.
13. Europe has a stronger labour movement than does North America. As a result, policy makers in that part of the world must be more conscious of...
- a) disinflation.
  - b) the Phillips curve.
  - c) cost-push inflation.
  - d) demand-pull inflation.
14. The opposite of inflation is...
- a) reflation.
  - b) deflation.
  - c) disinflation.
  - d) a positive output gap.
15. Currently inflation is 6%, which is 3% higher than the government would like it to be. According to the Phillips Curve, to reduce inflation, the government would have to accept...
- a) lower unemployment.
  - b) higher unemployment.
  - c) lower economic growth.
  - d) higher economic growth.

16. When Canada has a surplus in its Current Account...
- a) the Balance of Payments must be temporarily unbalanced.
  - b) it is buying more goods and services from foreigners than it is selling to them.
  - c) Canadians are investing more abroad than foreigners are investing in Canada.
  - d) there must also be a surplus in the Capital Account.
17. If the Canadian dollar appreciates in value...
- a) this is good for Canadian consumers and bad for Canadian exporters.
  - b) this is bad for Canadian consumers and good for Canadian exporters.
  - c) this is bad for Canadian exporters and does *not* affect Canadian consumers.
  - d) this is good for Canadian consumers and does *not* affect Canadian exporters.
18. Which of the following reasons is *least* likely to account for why countries with large public-sector debts and deficits are less attractive to foreign investors?
- a) Debts give government the incentive to see inflation grow.
  - b) High deficits may cast doubt on the government's ability to repay.
  - c) High deficits are politically unpopular, leading to a change in leaders.
  - d) Governments must sell securities, increasing supply and lowering their price.
19. When the government is spending more than it is bringing in in tax revenue...
- a) it is running a deficit and the national debt increases.
  - b) it is running a deficit and the national debt decreases.
  - c) it is running a surplus and the national debt increases.
  - d) it is running a surplus and the national debt decreases.
20. You are examining the following information for XYZ Nation for the past fiscal year:
- |   |       |
|---|-------|
| Government expenditure on goods and services: | \$40m |
| Government transfer payments:                 | \$10m |
| Government revenue:                           | \$35m |

Based on these entries, the national debt has...

- a) fallen by \$5m.
- b) fallen by \$15m.
- c) increased by \$5m.
- d) increased by \$15m.

21. Which of the following is *not* one of the main areas of responsibility for the Bank of Canada?
- a) Physical currency
  - b) Funds management
  - c) The Canadian financial system
  - d) Increasing fluctuations in the general level of production.
22. The Bank Rate is...
- a) the minimum rate at which the Bank of Canada will lend money to the chartered banks and other members of the Canadian Payments Association.
  - b) the maximum rate at which the Bank of Canada will lend money to the chartered banks and other members of the Canadian Payments Association.
  - c) the interest rate set in the overnight market – the marketplace where major Canadian financial institutions lend each other money on a short-term basis.
  - d) the interest rate set in the money markets – the marketplace where major Canadian financial institutions lend international financial institutions on a short-term basis.
23. Sale and Repurchase Agreements (SRAs) are used by the Bank of Canada to...
- a) assist with moral suasion.
  - b) relieve undesired upward pressure on interest rates.
  - c) relieve undesired downward pressure on interest rates.
  - d) keep interest rates outside the Bank of Canada's operating band.
24. Drawdowns and redeposits involve...
- a) moving funds owned by the Bank of Canada in and out of the chartered banks.
  - b) moving bonds owned by the Bank of Canada in and out of the chartered banks.
  - c) moving funds owned by the Federal Government in and out of the chartered banks.
  - d) moving funds owned by the Federal Government in and out of the International Monetary Fund.
25. In the United States, the Federal Reserve Board is raising interest rates. In order for Fiscal Policy to be consistent with this action, the American government should...
- a) cut income taxes.
  - b) spend more on higher education.
  - c) reduce tariffs on Chinese imports.
  - d) spend less on the military and Medicare.

## Chapters 4 & 5, Test #2 – Answers

- 1.D 4 – 5.
- 2.B 4 – 7.
- 3.D 4 – 8.
- 4.B 4 – 8.
- 5.D 4 – 10.
- 6.A 4 – 11.
- 7.D 4 – 13.
- 8.C 4 – 13/14.
- 9.C 4 – 13/16.
- 10.D 4 – 17/18.
- 11.B 4 – 21.
- 12.C 4 – 22.
- 13.C 4 – 22.
- 14.B 4 – 22.
- 15.B 4 – 22.
- 16.C 4 – 23.
- 17.A 4 – 23/24.
- 18.C 4 – 25.
- 19.A 5 – 4.
- 20.C 5 – 4.
- 21.D 5 – 7.
- 22.A 5 – 9.
- 23.C 5 – 10.
- 24.C 5 – 11.
- 25.D 5 – 12.



## CSC VOLUME ONE: Chapters 6 – 7, Test #1

1. The details of a bond issue are outlined in its...
  - a) trust deed.
  - b) prospectus.
  - c) protective provisions.
  - d) offering memorandum.
  
2. The income from a strip bond is considered...
  - a) capital gains.
  - b) interest income.
  - c) interest income on the coupons and capital gains on the principal.
  - d) capital gains on the coupons and interest income on the principal.
  
3. A strip bond....
  - a) is sold at par and matures at par. It makes regular interest payments.
  - b) is sold at a discount and matures at par. It makes regular interest payments.
  - c) is sold at a premium and matures at par. It makes regular interest payments.
  - d) is sold at a discount and matures at par. It does *not* make regular interest payments.
  
4. Which of the following government-issued bonds are usually callable?
  - a) Municipal bonds only
  - b) Provincial bonds only
  - c) Government of Canada bonds only
  - d) Government of Canada and municipal bonds
  
5. Which of the following bonds would *most* likely provide the investor with the highest yield?
  - a) A 10-year straight bond.
  - b) A 10-year callable bond.
  - c) A 10-year retractable bond.
  - d) A 10-year convertible bond.
  
6. Currently, there is a 5% convertible debenture that is trading at 95. Each \$1,000 face value is convertible into 20 common shares. Since the convertible bonds were issued, interest rates have increased sharply. Therefore, it is *most* likely that the price of the common shares is *closest* to...
  - a) \$45.00.
  - b) \$47.50.
  - c) \$50.00.
  - d) \$55.00.

7. All of the following statements are true with respect to treasury bills *except*...
- a) they pay interest at maturity.
  - b) the difference between the issue price and par represents the return on investment.
  - c) they are short-term government obligations offered in denominations of \$1,000 to \$1,000,000.
  - d) they are sold every two weeks at auction by the Minister of Finance through the Bank of Canada.
8. A real return bond issued by the Government of Canada uniquely protects the investor against...
- a) the risk of default.
  - b) the risk of inflation.
  - c) the risk of deflation.
  - d) the risks of inflation and default.
9. The Province of Ontario issues a provincial bond with a ten-year maturity and a guaranteed bond, also with a ten-year maturity. We would expect that the guaranteed bond has a...
- a) lower yield.
  - b) higher yield.
  - c) similar yield.
  - d) Provinces do *not* issue guaranteed bonds.
10. A railway company wants to borrow from the capital markets. You would recommend that it considers issuing...
- a) warrants.
  - b) collateral trust bonds.
  - c) subordinated debentures.
  - d) equipment trust certificates.
11. Which of the following is *least* likely to be true of GICs?
- a) All GICs are non-redeemable.
  - b) Both principal and interest payments are guaranteed.
  - c) Investors can choose frequency of interest payments.
  - d) The interest rate for escalating-rate GICs increases over the GIC's term.

Please refer to the following bond quote for Questions #12 and #13...

Issue	Coupon	Maturity Date	Bid	Ask	Yield
PQR Int'l	6.00	1 July/10	101.40	101.60	5.63%

12. How much would it cost to buy \$100,000 face of this bond?
- a) \$100,000
  - b) \$100,000 plus accrued interest
  - c) \$101,400 plus accrued interest
  - d) \$101,600 plus accrued interest
13. Since this security was issued, interest rates have increased slightly. Given this fact, which of the following is *most* likely true?
- a) PQR's credit quality has improved.
  - b) The company's business has deteriorated.
  - c) Moody's has changed PQR's debt rating from AA to A.
  - d) None of the above provides a reasonable explanation.
14. A bond's present value is found by...
- a) adding the present value of the bond's coupon payments and the present value of the bond's principal to be received at maturity.
  - b) adding the present value of the bond's coupon payments and the future value of the bond's principal to be received at maturity.
  - c) adding the future value of the bond's coupon payments and the present value of the bond's principal to be received at maturity.
  - d) adding the future value of the bond's coupon payments and the future value of the bond's principle at maturity.
15. What is the present value of the second coupon of a 5% semi-annual pay bond trading at 92, assuming a discount rate of 7%? (Base your answer on \$1,000 face.)
- a) \$21.47
  - b) \$21.84
  - c) \$23.34
  - d) \$43.67

16. An 8% annual pay bond with face value of \$100,000 is currently trading at 92. It has three years to maturity. Should an investor with a 10% discount rate purchase this security?
- a) Yes, because its present value of \$95,026 is more than its current price of \$92,000.
  - b) No, because its present value of \$95,026 is less than its issue price of \$100,000.
  - c) Yes, because its current market price of \$92,000 is less than its issue price of \$100,000.
  - d) No, because the discount rate of 10% exceeds the bond's 8% coupon.
17. A T-Bill with 80 days to maturity is priced at 99.25. What is its effective yield?
- a) 3.40%
  - b) 3.42%
  - c) 3.45%
  - d) 4.32%
18. A semi-annual bond with a 5% coupon is currently trading at 94. It has four years to maturity. Its current yield is...
- a) 2.50%.
  - b) 5.00%.
  - c) 5.32%.
  - d) Insufficient information.
19. An investor goes into a bank and sees that a one-year GIC is paying 2%. This refers to its...
- a) real return.
  - b) nominal return.
  - c) inflation-adjusted return.
  - d) Both a) & c)
20. The graph depicting the term structure of interest rates is known as the...
- a) yield curve.
  - b) bond curve.
  - c) real return graph.
  - d) nominal return graph.

21. According to Expectations Theory, if the yield curve is upward-sloping...
- a) the market expects the economy to slip into recession.
  - b) the market expects interest rates to be lower in the future.
  - c) the market expects interest rates to be higher in the future.
  - d) the market expects more supply to come to the market in the future.
22. Which of the following bonds would likely be *least* volatile?
- a) 5-year GOC bond with a 5% coupon.
  - b) 5-year GOC bond with a 10% coupon.
  - c) 10-year GOC bond with a 5% coupon.
  - d) 10-year GOC bond with a 10% coupon.
23. Duration measures...
- a) interest rate risk.
  - b) reinvestment risk.
  - c) Both interest rate risk and reinvestment risk.
  - d) Neither interest rate risk nor reinvestment risk.
24. An investor held a \$250,000 face value 5% Government of Canada semi-annual pay bond that matures October 15<sup>th</sup>, 2020. When it was trading at 98, he sold it. If the trade settles on June 24<sup>th</sup>, the buyer of the bond owes the seller of the bond accrued interest of...
- a) \$2,397.26.
  - b) \$3,676.37.
  - c) \$3,869.86.
  - d) \$8,630.14.
25. Bond indexes are *least* likely to be used...
- a) to construct bond index funds.
  - b) as a performance measurement tool.
  - c) as a guide to the performance of the bond market.
  - d) by the Bank of Canada to help conduct monetary policy.

## Chapters 6 – 7, Test #1 – Answers

- 1.A 6 – 4.
- 2.B 6 – 8.
- 3.D 6 – 8.
- 4.B 6 – 9.
- 5.B 6 – 9/10.
- 6.B 6 – 10/12.
- 7.A 6 – 14.
- 8.B 6 – 14/15.
- 9.C 6 – 15/16.
- 10.D 6 – 18.
- 11.A 6 – 19.
- 12.D 6 – 21.
- 13.A 6 – 21/22.
- 14.A 7 – 4.
- 15.C 7 – 5/6.  
 $\$25/1.035^2 = \$23.34$
- 16.A 7 – 5/8.  
Solve for PV: 3 = N... 10 = I/Y... 8 = PMT... 100 = FV... [CPT][PV]... 95.026  
The bond's present value of \$95,026 exceeds its \$92,000 market price.
- 17.C 7 – 8/9.  
 $.75/99.25 \times 365/80 \times 100 = 3.45\%$
- 18.C 7 – 9.  
 $5/94 \times 100 = 5.32\%$ .
- 19.B 7 – 13.
- 20.A 7 – 13/14.
- 21.C 7 – 14/15.
- 22.B 7 – 17/18.
- 23.A 7 – 18/19.
- 24.A 7 – 23/24.  
Days to next coupon payment: 70  
 $250,000 \times .05 \times 70/365 = \$2,397.26$
- 25.D 7 – 24/25.

## CSC VOLUME ONE: Chapters 6 – 7, Test #2

1. What increases the leverage potential for bonds and debentures, compared to preferred shares?
  - a) Companies are legally required to make interest payments on bonds and debentures; they are *not* legally obligation to make dividend payments on preferred shares.
  - b) Companies are legally required to make dividend payments on preferred shares; they are *not* legally obligated to make interest payments on bonds and debentures.
  - c) Interest payments on bonds and debentures are *not* a tax-deductible expense for the corporation; preferred dividend payments are a tax-deductible expense
  - d) Interest payments on bonds and debentures are a tax-deductible expense for the corporation; preferred dividend payments are *not* a tax-deductible expense.
  
2. In November 2005, BCE issued a 20 year bond. Which of the following statements is true?
  - a) It should be considered a short-term bond.
  - b) It should be considered as a medium-term bond.
  - c) It should be considered as a long-term bond.
  - d) It could be considered either as a medium-term or long-term bond.
  
3. You are managing the portfolio of a high net-worth client. There is a strip bond on the market with a very attractive 7% yield. If you had the choice of buying it in your client's trading account or RRSP account, you would recommend...
  - a) buying it in the trading account because the gains from a strip bond are treated as capital gains.
  - b) buying it in the trading account because the interest income that your client would receive annually would take care of the tax consequences.
  - c) buying it in the RRSP account because although interest income is received each year, it is *not* enough to take care of the tax consequences.
  - d) buying it in the RRSP account because cash is *not* received until the strip bond matures, but the client is responsible for making annual cash payments on the interest income from it.
  
4. Which of the following bonds are the opposite of extendible bonds?
  - a) Callable
  - b) Convertible
  - c) Retractable
  - d) Redeemable

5. What is the purpose of the purchase fund provision?
- a) It requires companies to retire a set amount of debt every year.
  - b) It acts as a price support if the price of the bonds falls at or below a stipulated price.
  - c) It forces investors to surrender some of their bonds if the price ever falls below par value.
  - d) It forces investors to surrender some of their bonds if the price ever rises above par value.
6. Which of the following fixed income products would *most* likely provide an investor the highest return?
- a) A 10-year debenture.
  - b) A 10-year extendible bond.
  - c) A 10-year retractable bond.
  - d) A 10-year convertible debenture.
7. XYZ Company issued a 10-year convertible bond, each \$1,000 face value convertible into 50 common shares. The bond had the forced conversion featured attached to it. That feature would *most* likely be utilized if the price of the common shares were...
- a) below \$20 per share.
  - b) at \$20 per share.
  - c) above \$20 per share.
  - d) Insufficient information.
8. All of the following are common protective provisions found in Canadian corporate bonds *except*...
- a) debt test.
  - b) negative pledge.
  - c) retractable debt test.
  - d) limitation on sale and leaseback.
9. Which of the following is *not* true with respect to the federal government and the Government of Canada bonds that it issues?
- a) All Government of Canada bonds are callable.
  - b) Investors assign the highest quality ratings to federal government bonds.
  - b) The federal government is the largest single issuer of marketable bonds in the Canadian bond market.
  - c) Canadian bonds will have higher yields than American bonds if the market thinks that Canadian bonds are riskier.



10. The gains from treasury bills are taxed as...
- a) capital gains.
  - b) interest income.
  - c) Either capital gains or interest income: It is the investor's choice.
  - d) Either capital gains or interest income: It is Revenue Canada's choice.
11. A real return annual-pay bond carrying a 3% coupon was priced at 100 at issue date. If inflation is 1% over the first year, then which of the following is true?
- a) The investor would receive \$3,000 in interest and the bond would be worth \$101,000.
  - b) The investor would receive \$3,030 in interest and the bond would be worth \$101,000.
  - c) The investor would receive \$4,000 in interest and the bond would be worth \$100,000.
  - d) The investor would receive \$4,000 in interest and the bond would be worth \$101,000.
12. Serial debentures or instalment debentures are *typically* issued by...
- a) corporations.
  - b) municipalities.
  - c) provincial governments.
  - d) the federal government.
13. In order to raise investment capital, a holding company would be *most* likely to issue...
- a) collateral trust bonds.
  - b) subordinated debentures.
  - c) equipment trust certificates.
  - d) guaranteed investment certificates.
14. The Bank of Nova Scotia wants to raise investment capital in the United States to finance its expansion. It contracts with a US underwriter to sell a new issue of bonds, denominated in US currency in the US market. This is an example of a(n)...
- a) foreign bond.
  - b) international bond.
  - c) North American bond.
  - d) Free Trade Zone bond.

15. Interest rates are extremely low. A risk-averse investor believes that the stock market is going to do much better than the fixed-income market, but wants the security associated with GICs. You would recommend the purchase of...
- a) laddered GICs.
  - b) instalment GICs.
  - c) index-linked GICs.
  - d) interest-rate linked GICs.
16. Which of the following is *not* one of the independent rating services for bonds in Canada?
- a) DBRS
  - b) Moody's Canada
  - c) Standard and Poor's
  - d) TSX Bond Rating Service
17. Which of the following corporate bonds would be *most* likely to receive an "Aaa" rating?
- a) A clothing retailer that recently IPO'd.
  - b) A forestry company that has a great deal of debt.
  - c) An insurance company that has been in business for fifty years.
  - d) None of the above – only government securities receive AAA ratings.
18. The higher the discount rate...
- a) the higher the present value of the bond's income stream. The present value of the bond's principal is unaffected.
  - b) the higher the present value of the bond's income stream and the higher the present value of the bond's principal.
  - c) the lower the present value of the bond's income stream. The present value of the bond's principal is unaffected.
  - d) the lower the present value of the bond's income stream and the lower the present value of the bond's principal.
19. An 7% annual pay bond with face value of \$100,000 has two years to maturity and is current trading at 102. Should an investor with a discount rate of 6% purchase this security?
- a) No. The investor will incur a \$2,000 loss when the bond matures.
  - b) No. The bond's present value of \$101,833 is below its \$102,000 purchase price.
  - c) Yes. The bond's coupon rate exceeds the investor's discount rate.
  - d) Yes. The bond's present value of \$107,574 exceeds its \$102,000 purchase price.

20. A T-Bill with 340 days to maturity is priced at 98.25. What is its effective yield?
- a) 1.63%
  - b) 1.66%
  - c) 1.88%
  - d) 1.91%
21. A semi-annual bond with a 6% coupon is currently trading at 102. It has three years to maturity. Its current yield is...
- a) 5.88%.
  - b) 5.92%.
  - c) 5.97%.
  - d) 6.00%.
22. Reinvestment risk is the risk that...
- a) interest rates may have fallen by the time the bond matures.
  - b) interest rates may increase and the value of the bond will fall.
  - c) more debt will be issued and the price of all debt in the marketplace will suffer as a result.
  - d) coupon payments may have to be reinvested at a lower rate than what prevailed when the bond was issued.
23. A weakness of Liquidity Preference Theory is that...
- a) it does *not* explain a flat yield curve.
  - b) it does *not* explain an upward-sloping yield curve.
  - c) it does *not* explain a downward-sloping yield curve.
  - d) it does *not* explain the impact of reinvestment risk.
24. A bond is priced at 102. Its duration is 5. If interest rates increase by 1.5%, the bond will be priced at...
- a) 94.35.
  - b) 107.50.
  - c) 109.50.
  - d) 109.65.
25. A bond with face value of \$250,000 and a 5% coupon matures December 1, 2026. It was sold at a price of 99 on Tuesday October 30<sup>th</sup>, 2018. Including accrued interest, approximately how much would the buyer of the bond have to pay the seller?
- a) \$247,750
  - b) \$250,000
  - c) \$252,750
  - d) \$255,250

## Chapters 6 – 7, Test #2 – Answers

- 1.D 6 – 3/4.
- 2.B 6 – 7.
- 3.D 6 – 8.
- 4.C 6 – 10.
- 5.B 6 – 12/13.
- 6.A 6 – 9/11.
- 7.C 6 – 11/12.
- 8.C 6 – 13.
- 9.A 6 – 13/14.
- 10.B 6 – 14.
- 11.B 6 – 14/15.  
Value of bond grows by 1% to \$101,000. 3% of that is the interest income received.
- 12.B 6 – 16.
- 13.B 6 – 18.
- 14.A 6 – 18.
- 15.C 6 – 20.
- 16.D 6 – 21.
- 17.C 6 – 22.
- 18.D 7 – 3/4.
- 19.B 7 – 5/8.  
Solve for PV: 2 = N... 6 = I/Y... 7 = PMT... 100 = FV... [CPT][PV]... 101.833  
The bond's present value of \$101,833 is below its \$102,000 market price.
- 20.D 7 – 8/9.  
 $1.75/98.25 \times 365/340 \times 100 = 1.91\%$
- 21.A 7 – 9.  
 $6/102 = 5.88\%$
- 22.D 7 – 12.
- 23.C 7 – 15.
- 24.A 7 – 18/19.  
 $102 \times .05 \times 1.5 = 7.65$  price change. Because interest rates went up, the bond's price will go down to 94.35.
- 25.C 7 – 23/24.  
Days from previous coupon payment: 153  
 $250,000 \times .05 \times 153/365 = \$5,239.73$  accrued interest  
 $250,000 \times .99 = \$247,500$  principal amount  
Total cost: \$252,739.73

## CSC VOLUME ONE: Chapters 8 – 9, Test #1

1. A group of shares that trade in less than a standard trading unit is called a(n)..
  - a) odd lot.
  - b) even lot.
  - c) uneven lot.
  - d) broken lot.
  
2. Which of the following is *least* likely to be a benefit of common share ownership?
  - a) marketability
  - b) unlimited liability
  - c) potential for capital appreciation
  - d) favourable tax treatment for dividends
  
3. All of the following are categories of restricted shares except..
  - a) restricted voting.
  - b) non-voting shares.
  - c) subordinate voting shares.
  - d) stock dividend split shares.
  
4. An investor purchased 200 shares of ABC Company at \$20 per share. When the shares were trading at \$50 per share, the company executed a 2 for 1 stock split. A month later when the shares were at \$40, the investor sold 200 shares. What would be her profit on those 200 shares?
  - a) \$ 4,000
  - b) \$ 6,000
  - c) \$ 8,000
  - d) \$12,000
  
5. If a company orders a 1 for 3 reverse split or consolidation..
  - a) there will be fewer shares at a lower price.
  - b) there will be fewer shares at the same price.
  - c) there will be fewer shares at a higher price.
  - d) there will be more shares at a lower price.

Please use the following information for Questions #6 & #7.

52 Weeks

High	Low	Stock	Div.	High	Low	Close	Change	Volume
\$25.00	\$16.25	GED	.60	\$23.00	\$22.40	\$22.90	-\$ .25	500,000

6. What was the previous day's close for GED?
  - a) \$22.65
  - b) \$22.75
  - c) \$23.15
  - d) \$23.25
  
7. What could an investor bought/sold GED at the opening of that day's trading?
  - a) \$22.40
  - b) \$22.90
  - c) \$23.00
  - d) Insufficient information.
  
8. A company has an issue of cumulative preferred shares outstanding. Its regularly quarterly dividend of \$.25 per share has been omitted for two consecutive quarters. Before the common shareholders receive a dividend, the preferred shareholder would have to receive a dividend of \_\_\_\_\_ per share.
  - a) 0
  - b) \$.25
  - c) \$.50
  - d) \$.75
  
9. Which of the following features associated with preferred shares is *most* favourable to investors?
  - a) Purchase fund.
  - b) Callable feature.
  - c) Redeemable feature.
  - d) Non-cumulative feature.
  
10. One of the *least* heavily weighted sectors of the S&P/TSX Composite Index is...
  - a) Energy.
  - b) Materials.
  - c) Financials.
  - d) Health Care.

11. Which of the following is *not* true with respect to the Dow Jones Industrial Average?
- a) It consists of 30 stocks.
  - b) It is market-cap weighted.
  - c) Its stocks are considered "blue-chip".
  - d) Its stocks have a below-average risk profile.
12. Which of the following is true of the S&P 500?
- a) It is price-weighted.
  - b) It is weighted by market capitalization.
  - c) It is based on a large number of transportation stocks.
  - d) It draws its members from companies that trade on different exchanges around the world.
13. An investor believes that the Japanese economy will over-perform the rest of the world over the next decade and wants exposure to its stock market. You would recommend that he invests in the...
- a) DAX
  - b) CAC 40
  - c) FTSE 100
  - d) Nikkei Stock Average
14. An investor bought 500 shares of BB on Friday July 15<sup>th</sup> in a cash account. On what date would she be required to make full payment for this purchase?
- a) Friday July 15<sup>th</sup>
  - b) Monday July 18<sup>th</sup>
  - c) Tuesday July 19<sup>th</sup>
  - d) Wednesday July 20<sup>th</sup>
15. Interest on a margin loan is...
- a) calculated daily and charged daily.
  - b) calculated daily and charged weekly.
  - c) calculated daily and charged monthly.
  - d) calculated daily and charged annually.
16. An investor purchased 500 shares of ABC Security at \$1.90 per share in early morning trading, promising to deposit sufficient margin before business the following morning. If the shares ranged in price from \$1.60 to \$2.05 during the day before closing at \$1.70, what is the margin he would be required to deposit, assuming that he started the day with no cash or securities in his account?
- a) \$438
  - b) \$780
  - c) \$790
  - d) \$950

17. What would the margin surplus be if the next day, the shares closed at \$2.20?
- a) \$380
  - b) \$425
  - c) \$550
  - d) \$930
18. An investor short sold 1,500 shares of GHI Security at \$22. It was eligible for reduced margin. What is the additional margin deposit he would be required to make?
- a) \$ 9,900
  - b) \$16,500
  - c) \$33,000
  - d) \$42,900
19. Refer to #18. GHI subsequently rises to \$24. What additional margin must be deposited?
- a) \$ 900
  - b) \$2,700
  - c) \$3,000
  - d) \$3,900
20. Refer to #19. Assume that instead of depositing additional margin, the investor closed out his position. He would lose...
- a) \$1,500.
  - b) \$3,000.
  - c) \$3,900.
  - d) \$5,000.
21. With respect to short selling, all of the following statements are true *except*...
- a) There is a time limit of one year on short sales.
  - b) The short seller is responsible for maintaining adequate margin in the short account.
  - c) The short seller is liable for any dividends or other benefits paid during the period the account is short.
  - d) There can be difficulties in borrowing a sufficient quantity of the security sold short to cover the short sale.
22. All of the following are risks associated with short-selling except...
- a) Liability
  - b) Regulatory risk
  - c) Buy-in requirements
  - d) Bankruptcy of company



23. If an investor wants to sell a security immediately, she should place a...
- a) day order.
  - b) limit order.
  - c) market order.
  - d) stop-loss order.
24. How long is an order considered to be open if it is *not* specified?
- a) Day
  - b) Week
  - c) Month
  - d) Open until cancelled
25. At 9:20 before market opens, a pro order hits the trading desk to purchase 10,000 shares at \$20 per share. Five minutes later – still before market open – a client order hits the trading desk to purchase 100 shares at \$20 per share.
- Which of the following is correct?
- a) The client order will receive priority.
  - b) The pro order will receive priority because it was received first.
  - c) The pro order will receive priority because it is for a greater number of shares.
  - d) The trader has the discretion about which order to execute first.

## Chapters 8 – 9, Test #1 – Answers

1.A 8 – 4.

2.B 8 – 4.

3.D 8 – 7/8.

4.B 8 – 8/9.

Adjust the original purchase price by the terms of the split. Instead of buying 200 shares at \$20, think of it as buying 400 shares at \$10. Therefore, when 200 shares are sold at \$40, there is a \$30 profit per share which amounts to \$6,000.

5.C 8 – 9.

6.C 8 – 9/10.

7.D 8 – 9/10.

8.D 8 – 12/13.

9.A 8 – 13.

10.D 8 – 20.

11.B 8 – 21.

12.B 8 – 21.

13.D 8 – 22.

14.C 9 – 3.

15.C 9 – 4.

16.B 9 – 5/7.

The cost of the purchase was \$950. Loan value is calculated based on the closing day's price of \$1.70:  $500 \times \$1.70 \times 20\% = \$170$ . Therefore, the investor must deposit margin of \$780.

17.A 9 – 5/7.

The shares are now worth \$1,100. Loan value is 50% of that, or \$550. Because the loan value was previously \$170, the margin surplus is the difference, or \$380.

18.A 9 – 7/9.

The original sale amount is  $1,500 \times \$22 = \$33,000$ . Margin required is 30% or \$9,900.

19.D 9 – 7/9.

The new margin requirement is  $130\% \times 1,500 \times \$24$ . The investor received \$33,000 for the short sale and deposited an additional \$9,900. Therefore, the margin shortfall is \$3,900.

20.B 9 – 10.

The sell price is \$22. The buy price is \$24. 1,500 shares traded which results in a \$3,000 loss.

21.A 9 – 10/11.

22.D 9 – 11.

23.C 9 – 14.

24.A 9 – 15.

25.A 9 – 16.

## CSC VOLUME ONE: Chapters 8 – 9, Test #2

1. In Canada, which of the following receive “favourable” tax treatment?
  - i) interest income
  - ii) dividend income
  - iii) capital gains  
  - a) i) only
  - b) ii) only
  - c) i) & ii) only
  - d) ii) & iii) only
  
2. Which of the following correctly places the dividend chronology in the correct order?
  - a) pay date, record date, ex-dividend date, and cum-dividend date
  - b) ex-dividend date, cum-dividend date, record date, and pay date
  - c) cum-dividend date, ex-dividend date, record date, and pay date
  - d) record date, ex-dividend date, cum-dividend date, and pay date
  
3. Subordinate voting shares...
  - a) do *not* carry a right to vote.
  - b) carry a right to vote only under limited circumstances.
  - c) carry a right to vote, but another class of shares carries a greater voting right per share.
  - d) carry a right to vote, subject to a limit or restriction on the number or percentage of shares that can be voted by a person, company, or group.
  
4. If a company has 30,000,000 million shares outstanding and is priced at \$30 then announces a 3 for 1 split, which of the following would be true?
  - a) there would be 30,000,000 shares at a price of \$90.
  - b) there would be 90,000,000 shares at a price of \$30.
  - c) there would be 10,000,000 shares at a price of \$90.
  - d) there would be 90,000,000 shares at a price of \$10.

5. An investor purchased 500 shares of ABC Company at \$12 per share. When the shares were trading at \$27 per share, the company executed a 3 for 1 stock split. A month later when the shares were at \$8, the investor sold 200 shares. What would be her profit or loss on those 200 shares?
- a) \$200 loss
  - b) \$200 profit
  - c) \$400 profit
  - d) \$800 profit

Please use the following information for Questions #6 & #7.

52 Weeks

High	Low	Stock	Div.	High	Low	Close	Change	Volume
\$45.00	\$18.20	RMD	.50	20.05	\$18.20	\$18.20	-\$2.25	250,000

6. What does the "Div .50" mean?
- a) The regular quarterly dividend is \$.50.
  - b) The regular annual dividend is \$.50.
  - c) In the past twelve months, RMD has paid \$.50 in dividends.
  - d) The dividend is 50% of what it was in the previous year.
7. What does "Volume 250,000" mean?
- a) 250,000 trades were made the previous day.
  - b) 250,000 shares were traded the previous day.
  - c) 125,000 shares were bought and 125,000 were sold.
  - d) None of the above.
8. Which of the following investment objectives do Canadian preferred shares meet for Canadian retail investors?
- a) safety and income
  - b) income and liquidity
  - c) income and tax minimization
  - d) liquidity and tax minimization
9. Under what circumstances do preferred shares receive voting privileges?
- a) Preferred shares routinely have voting privileges.
  - b) Preferred shares receive voting privileges if they are convertible preferred shares.
  - c) Preferred shares receive voting privileges after a stated number of preferred dividends have been omitted.
  - d) Preferred shares never have voting privileges.

10. Which of the following Canadian indexes has a fixed number of securities?
- a) S&P/TSX Composite Index only
  - b) S&P/TSX 60 Index only
  - c) S&P/TSX 60 Index and S&P/TSX Composite Index
  - c) S&P/TSX 60 Index and S&P/TSX Venture Composite
11. The main gauge for measuring the investment performance of institutional investments in the United States is the...
- a) S&P 500.
  - b) Dow Jones 30.
  - c) S&P/TSX Composite.
  - d) Dow Jones Industrial Average.
12. An investor wants to have exposure to the French stock market. You would recommend that she invest in the...
- a) DAX.
  - b) CAC 40.
  - c) FTSE 100.
  - d) Nikkei Stock Average.
13. What is the document that a potential margin client is required to obtain before opening a margin account?
- a) New Account Application Form
  - b) Margin Account Agreement Form
  - c) Collateralized Margin Account Form
  - d) Noncollateralized Margin Account Form
14. An investor buys 500 shares of an option-eligible security at \$22. What is the margin requirement?
- a) \$ 3,300
  - b) \$ 5,500
  - c) \$ 7,700
  - d) \$11,000

15. Refer to Question #14: Assume the security subsequently rises to \$25. If when the security was \$22 the investor had exactly enough money in his/her account, what would his margin deficit or surplus be after the increase?
- a) \$ 750 deficit
  - b) \$1,050 surplus
  - c) \$1,225 deficit
  - d) \$1,500 surplus
16. An investor has \$1,200 in her account. She asks her broker to buy 1,200 shares of BCE @\$28, an option-eligible security, in her margin account. What would the margin call be in this circumstance?
- a) \$ 8,880
  - b) \$10,080
  - c) \$15,600
  - d) \$16,800
17. An investor purchased 1,000 shares of Regal Bank at \$48. It is option eligible. She put down the minimum margin required and borrowed the rest. If Regal Bank shares increased to \$50, she could...
- a) withdraw a maximum of \$1,000 from her account; however she would be required to pay interest on that extra \$1,000 in addition to the original \$24,000 she borrowed.
  - b) withdraw a maximum of \$1,000 from her account; however she would *not* be required to pay interest on that extra \$1,000 in addition to the original \$24,000 she borrowed.
  - c) withdraw a maximum of \$1,400 from her account; however she would be required to pay interest on that extra \$1,400 in addition to the original \$33,600 she borrowed.
  - d) withdraw a maximum of \$1,400 from her account; however she would *not* be required to pay interest on that extra \$1,400 in addition to the original \$33,600 she borrowed.
18. An investor short-sold 1,000 shares of a common stock at \$18. What is the total amount of margin that must be maintained in the account?
- a) \$ 9,000
  - b) \$18,000
  - c) \$23,400
  - d) \$27,000
19. Referring to Q#18... if he closed the position when the shares were \$16, what is the profit or loss?
- a) \$2,000 profit
  - b) \$2,000 loss
  - c) \$16,000 profit
  - d) \$ 4,000 loss

20. What is the maximum length of time that a short sale position can be maintained?
- a) One month
  - b) Six months
  - c) Three years
  - d) There is no strict time limit on short sales
21. Traders generally prefer to confine short sales to companies...
- a) having a small number of shares outstanding that are widely held.
  - b) having a large number of shares outstanding that are widely held.
  - c) having a small number of shares outstanding that are *not* widely held.
  - d) having a large number of shares outstanding that are *not* widely held.
22. An investment dealer borrows shares from Smith's account. The shares are sold, and held by Brown when the company declares a \$.50 per share dividend. How much dividend income will Smith and Brown see on a per-share basis?
- a) Smith will receive \$.50 and Brown will receive nothing.
  - b) Smith will receive \$.25 and Brown will receive \$.25.
  - c) Smith will receive nothing and Brown will receive \$.50.
  - d) Smith will receive \$.50 and Brown will receive \$.50.
23. After a trade occurs...
- a) only the buyer receives a confirmation.
  - b) only the seller receives a confirmation.
  - c) both the buyer and the seller receive a confirmation.
  - d) both the buyer and the seller receive a confirmation if they have requested for one in advance.
24. A client enters a limit order for the day, to buy 1,000 shares of ABC Company at \$20.00. The lowest price it trades that day is \$20.05. Therefore...
- a) the order automatically expires and the investor is *not* charged any commission.
  - b) the order automatically expires and the investor is charged a nominal commission only.
  - c) the order automatically renews the next day and the investor is *not* charged any commission.
  - d) the order automatically renews the next day and the investor is charged a nominal commission only.
25. The Professional (Pro) order rule is designed to...
- a) ensure that pros get filled before clients.
  - b) ensure that pros get filled at better prices than clients.
  - c) ensure that clients get filled before pros.
  - d) ensure that clients get filled at better prices than pros.



## Chapters 8 – 9, Test #2 – Answers

1.D 8 – 4.

2.C 8 – 5/6.

3.C 8 – 7.

4.D 8 – 8/9.

5.D 8 – 8/9.

Adjust the original purchase price by the terms of the split. Instead of buying 500 shares at \$12, think of it as buying 1,500 shares at \$4. Therefore, when 200 shares are sold at \$8, there is a \$4 profit per share which amounts to \$800.

6.C 8 – 9/10.

7.B 8 – 9/10.

8.C 8 – 10/12.

9.C 8 – 13.

10.B 8 – 20.

11.A 8 – 21.

12.B 8 – 22.

13.B 9 – 4.

14.A 9 – 4/6.

The total cost of the purchase is \$11,000. Because the security is option-eligible, the loan value is 70% and the margin is 30% or \$3,300.

15.B 9 – 4/6.

The security is now worth \$12,500 and the loan value is 70% of that, or \$8,750. The loan value was \$7,700, therefore the margin surplus is \$1,050.

16.A 9 – 4/6.

The cost of the purchase is \$33,600. Her margin requirement is 30% of that, or \$10,080. Because she has \$1,200 in the account, the additional margin required is \$8,880.

17.C 9 – 4/6.

The cost of the purchase is \$48,000. She must put down \$14,400 in margin, having loan value of \$33,600. If the shares go up to \$50, the loan value is \$35,000, allowing her to withdraw \$1,400.

18.D 9 – 7/9.

$1,000 \times \$18 \times 150\% = \$27,000.$

19.A 9 – 10.

Sell price = \$18.

Buy price = \$16.

Profit = \$2 x 1,000 shares = \$2,000.

20.D 9 – 10.

21.B 9 – 10.

22.D 9 – 11.

23.C 9 – 13.

24.A 9 – 15.

25.C 9 – 16.

## CSC VOLUME ONE: Chapter 10, Test #1

1. Which of the following is *least* likely to be an attractive feature of OTC derivatives for corporations?
  - a) liquidity
  - b) privacy
  - c) customization
  - d) performance bond *not* required
  
2. What is the *most* important function of the clearing corporation?
  - a) To increase liquidity.
  - b) To guarantee performance.
  - c) To reduce bid-ask spreads.
  - d) To standardize contract sizes.
  
3. By definition, hedging means...
  - a) reducing risk.
  - b) increasing risk.
  - c) reducing risk and increasing return.
  - d) reducing risk and reducing potential return.
  
4. The writer of a put option...
  - a) pays the premium and has the right to buy.
  - b) pays the premium and has the obligation to sell.
  - c) receives the premium and has the right to sell.
  - d) receives the premium and has the obligation to buy.
  
5. An investor bought 3 GE OCT 30 Calls @ \$2. What does the "30" refer to?
  - a) the strike price
  - b) the option's price
  - c) the potential profit
  - d) the underlying's current price
  
6. Referring to the Question #5, what would happen in the client's account immediately upon completion of the purchase?
  - a) The cash position would be reduced by \$600.
  - b) The cash position would be reduced by \$9,000.
  - c) The cash position would be reduced by \$9,600.
  - d) The cash position would be unaffected until exercise occurred.

7. European-style options mean that...
- a) the option multiplier is 100.
  - b) the options are cash settled.
  - c) they are traded internationally.
  - d) exercise takes place when the option expires.
8. Which of the following options would be exercised?
- a) A \$20 put purchased for \$3 when the underlying is \$22.
  - b) A \$40 call purchased for \$1 when the underlying is \$40.
  - c) A \$50 call purchased for \$10 when the underlying is \$51.
  - d) A \$30 put purchased for \$2 when the underlying is \$31.
9. If a put has an exercise price of \$45 and the underlying security is \$44, we would refer to that option as...
- a) in the money.
  - b) out of the money.
  - c) having no time value.
  - d) having no intrinsic value.
10. The total number of outstanding option contracts for a particular option series is known as...
- a) open orders.
  - b) open interest.
  - c) assignment notice.
  - d) underlying interest.
11. All of the following are reasons to purchase call options *except*...
- a) to fix a future price.
  - b) to close out a position.
  - c) to enjoy the benefits of leverage.
  - d) to insure against a future drop in price.
12. If an investor sells a call option but does *not* own the underlying asset on which the option is based, that investor is known as...
- a) naked.
  - b) covered.
  - c) risk-averse.
  - d) openly interested.

13. A silver mining company knows that it will bring 100,000 ounces of silver to the market in nine months. It believes that the price of silver will be significantly higher at that time, but wants to protect itself against price declines. You would recommend that it...
- a) buys put options on silver.
  - b) sells call options on silver.
  - c) sells silver futures contracts.
  - d) buys silver forward contracts.
14. An investor buys a put option with a \$25 exercise price. The premium for it is \$2. If the option has \$2 of time value when it is purchased, what is the break-even price for the investor?
- a) \$23
  - b) \$25
  - c) \$27
  - d) \$29
15. A naked put writer who sold at-the-money options would like the underlying security to...
- a) fall in value.
  - b) fall in value or stay at the same price.
  - c) rise in value.
  - d) rise in value or stay at the same price.
16. When two counter-parties enter into a forward agreement...
- a) both are obligated to participate in the future trade.
  - b) only the long party is obligated to participate in the future trade.
  - c) only the short party is obligated to participated in the future trade.
  - d) neither party is obligated to participate in the future trade.
17. The two levels of margin used in futures trading are...
- a) initial margin and minimum margin.
  - b) original margin and minimum margin.
  - c) initial margin and maintenance margin.
  - d) original margin and maintenance margin.
18. A futures contract is held to expiration. This means that...
- a) the long party will have to make payment to the short.
  - b) the short party will have to make payment to the long.
  - c) the long party will have to make payment to the short and the short party will have to deliver the underlying asset.
  - d) the short party will have to make payment to the long and the long party will have to deliver the underlying asset.

19. Marking-to-market is an important feature of...
- a) options trading.
  - b) futures trading.
  - c) forward trading.
  - d) both futures and forward trading.
20. Companies choose to raise additional funds through a rights offering for all the following reasons *except*...
- a) current market conditions may *not* be conducive to an ordinary share issue.
  - b) the company wants to give existing shareholders the opportunity to acquire additional shares.
  - c) a rights issue more highly leverages the company, improving ROE.
  - d) a rights issue allows shareholders to maintain their proportionate interest in the company.
21. There are 10,000,000 shares outstanding of Company XYZ. It announces a rights offering where each common shareholder receives one right. Ten rights plus \$5 allow the investor to purchase one more treasury share. If the rights offering is fully subscribed, how much money will be raised?
- a) \$ 5,000,000
  - b) \$ 10,000,000
  - c) \$ 25,000,000
  - d) \$100,000,000
22. A stock trades for \$11 per share. It announces a rights offering where 3 rights plus \$10 will qualify the investor for one more treasury share. What is the value of one right during the cum-rights period?
- a) \$ .25
  - b) \$ .33
  - c) \$ .50
  - d) \$1.00
23. When does the TSX terminate trading in rights?
- a) At 10:00 on the expiration day.
  - b) At 12:00 on the expiration day.
  - c) At 2:00 on the expiration day.
  - d) At 4:00 on the expiration day.

24. A warrant is issued with the following terms: One warrant plus \$10 entitles the shareholder to one Treasury shares. The warrants trade for \$8. If the shares have a par value of \$1 and are trading for \$16 at the time of issue, the time value of the warrants would be...
- a) \$1.
  - b) \$2.
  - c) \$6.
  - d) \$8.
25. What are important differences between rights and warrants?
- a) Rights have longer lives and are a means of issuing treasury shares.
  - b) Rights have shorter lives and reduce the number of outstanding shares.
  - c) Warrants have longer lives and their issuance dilutes the holdings of current shareholders.
  - d) Warrants have shorter lives and their issuance dilutes the holdings of current shareholders.

## Chapter 10, Test #1 – Answers

- 1.A 10 – 4/6.
- 2.B 10 – 6.
- 3.D 10 – 8.
- 4.D 10 – 11.
- 5.A 10 – 12.
- 6.A 10 – 12.
- 7.D 10 – 12.
- 8.C 10 – 13.
- 9.A 10 – 13.
- 10.B 10 – 15.
- 11.D 10 – 16/18.
- 12.A 10 – 19.
- 13.A 10 – 21/22.
- 14.A 10 – 21/22.
- 15.D 10 – 22/23.
- 16.A 10 – 25.
- 17.C 10 – 26.
- 18.C 10 – 26/29.
- 19.B 10 – 26.
- 20.C 10 – 30.
- 21.A 10 – 31.  
 $10,000,000/10 \times 5 = \$5,000,000.$
- 22.A 10 – 31.  
 $(\$11 - \$10)/(3 + 1) = \$.25$
- 23.B 10 – 32.
- 24.B 10 – 32/33.  
You could buy the shares right now for \$16. The warrants would cost you \$8, and then it would take another \$10 to buy one share. The time value is the difference between the two alternatives, or \$2.
- 25.C 10 – 29/33.



## CSC VOLUME ONE: Chapter 10, Test #2

1. Which of the following is *not* true with respect to features common to all derivatives?
  - a) All derivatives have a price.
  - b) All derivatives have an expiration date.
  - c) All derivatives can be considered a zero-sum game.
  - d) All derivatives require a performance bond or good-faith deposit.
  
2. One of the attractive features of OTC derivatives is that...
  - a) standardization exists.
  - b) liquidity – offsetting is possible.
  - c) there is no default or credit risk.
  - d) contracts can be custom designed.
  
3. The two general categories of underlying assets for derivative contracts are...
  - a) calls and puts
  - b) stocks and bonds
  - c) futures and forwards
  - d) commodities and financials
  
4. Hedging is the attempt to eliminate or reduce the risk of either holding an asset for future sale or anticipating a future purchase of an asset. Hedging with derivatives involves...
  - a) taking a position in a derivative with a payoff that is similar to that of the asset to be hedged.
  - b) *not* taking a position in a derivative with a payoff that is similar to that of the asset to be hedged.
  - c) taking a position in a derivative with a payoff that is opposite to that of the asset to be hedged.
  - d) Derivatives are *not* used for hedging purposes.
  
5. With respect to option contracts, the specified price at which an investor can buy or sell is known as the...
  - a) premium.
  - b) exercise price.
  - c) opening transaction.
  - d) in-the-money amount.

6. An investor wrote 100 MSFT January 30 calls. As a result, he will have the...
- a) right to sell 100 shares.
  - b) obligation to sell 10,000 shares.
  - c) right to buy 10,000 shares.
  - d) obligation to buy 10,000 shares
7. Options that can be exercised at any time up to and including the expiration date are referred to as...
- a) Asian-style options.
  - b) American-style options.
  - c) European-style options.
  - d) offsetting transaction options.
8. Which of the following options would *most* likely be exercised at any given point in time?
- a) An American style put option that is in the money.
  - b) A European style call option that is deep in the money.
  - c) An American style put option that out of the money.
  - d) A European style call option that is out of the money.
9. The biggest difference between LEAPS and other option contracts is that LEAPS...
- a) are riskier.
  - b) are less risky.
  - c) have a longer time to expiration.
  - d) are traded OTC rather than through an exchange.
10. An opening sell transaction in an option results in a...
- a) long position.
  - b) short position.
  - c) closing position.
  - d) offsetting position.

11. An investor purchased a \$20 INTC Call, paying a premium of \$7. If Intel were currently trading at \$25, we would say that the option has \_\_\_\_ or time value.
- a) \$ 2
  - b) \$ 5
  - c) \$ 7
  - d) \$25
12. You are looking at an option and its intrinsic value is greater than its time value. You would *most* likely conclude that it is...
- a) in the money with a short time to expiration.
  - b) in the money with a long time to expiration.
  - c) out of the money with a short time to expiration.
  - d) out of the money with a long time to expiration.
13. The most popular reason to buy call options is to...
- a) profit from an expected decrease in the price of the stock.
  - b) profit from an expected increase in the price of the stock.
  - c) profit from the fact that stocks are volatile.
  - d) profit from the fact that over time options lose their time value.
14. An investor purchased one \$20 ABC Call @ \$3.00. When ABC was \$30.00, she exercised the option and subsequently sold ABC when it was trading at \$45. What was her total profit?
- a) \$ 700
  - b) \$1,500
  - c) \$2,200
  - d) \$2,500
15. LUV Airlines trades on the NYSE. It is concerned that the jet fuel it needs may go up significantly in six months, but it doesn't want to be locked into buying in case the price declines. You would recommend that LUV...
- a) buys a forward contract on jet fuel.
  - b) sells a forward contract on jet fuel.
  - c) buys six month call options on jet fuel.
  - d) sells six month call options on jet fuel.
16. By definition, covered call writers...
- a) own the underlying stock and sell calls against that position.
  - b) do *not* own the underlying stock but wish to purchase it.
  - c) own the underlying stock and deliver the calls if assigned.
  - d) do *not* own the underlying stock and do not wish to own it.

17. When a forward contract is traded on an exchange, it is known as a(n)...
- a) swap.
  - b) future.
  - c) option.
  - d) forward.
18. Which of the following is an example of a futures contract that is *always* cash settled?
- a) oil
  - b) gold
  - c) lumber
  - d) equity index
19. One of the important features of futures trading is the daily settlement of gains and losses. This is known as...
- a) hedging.
  - b) speculating.
  - c) risk management.
  - d) marking-to-market.
20. The margin level below which an account balance may *not* fall is known as...
- a) original.
  - b) minimum.
  - c) cash-settled.
  - d) maintenance.
21. Which of the following products are issued by companies to raise capital?
- i) Rights
  - ii) Warrants
  - iii) Options
- a) i) only
  - b) i) & ii) only
  - c) ii) & iii) only
  - d) i), ii) & iii)
22. The exercise price of a right is also known as its subscription or \_\_\_\_\_ price.
- a) offering
  - b) exercise
  - c) privilege
  - d) acceptance

23. XYZ shares are currently trading at \$15 per share. The company undertakes a rights offering where each outstanding share receives one right, and five rights plus \$12 will allow the investor to purchase one additional treasury share. What is the value of one right during the ex-rights period?
- a) \$ .50
  - b) \$ .60
  - c) \$ 3.00
  - d) \$12.00
24. Refer to the information in Question #23. If there were 10,000,000 shares issued and outstanding, how many shares would there be if the rights offering were fully subscribed?
- a) 11,000,000
  - b) 12,000,000
  - c) 15,000,000
  - d) 60,000,000
25. The main attraction of warrants is their...
- a) liquidity.
  - b) leverage potential.
  - c) longer expiration, compared to rights.
  - d) shorter expiration, compared to rights.

## Chapter 10, Test #2 – Answers

1.D 10 – 4.

2.D 10 – 4.

3.D 10 – 7.

4.C 10 – 8.

5.B 10 – 12.

6.B 10 – 11/12.

7.B 10 – 12.

8.A 10 – 12.

9.C 10 – 12.

10.B 10 – 13.

11.A 10 – 14.

12.A 10 – 14.

13.B 10 – 16/18.

14.C 10 – 16/18.

The option cost \$300. Exercising the option cost \$2,000. Cost: \$2,300.  
When the security is sold at \$4,500, there is a \$2,200 profit.

15.C 10 – 16/18.

16.A 10 – 19.

17.B 10 – 25.

18.D 10 – 26.

19.D 10 – 26.

20.D 10 – 26.

21.B 10 – 29/33.

22.A 10 – 30.

23.B 10 – 31/32.

$$(\$15 - \$12)/5 = \$.60.$$

24.B 10 – 31/32.

There are 10 million shares, therefore 10 million rights. If it takes five rights to buy one additional share, then 2 million new shares will be created, resulting in 12,000,000 altogether.

25.B 10 – 32.

## CSC VOLUME ONE: Chapters 11 – 12, Test #1

1. In a partnership, the general partners...
  - a) are responsible for the day-to-day operations and are personally liable for debts of the partnership.
  - b) are responsible for the day-to-day operations and are *not* personally liable for debts of the partnership.
  - c) are *not* responsible for the day-to-day operations and are personally liable for debts of the partnership.
  - d) are *not* responsible for the day-to-day operations and are not personally liable for debts of the partnership.
  
2. Which of the following is *least* likely to be understood as a benefit of incorporation?
  - a) limited liability
  - b) capital withdrawal
  - c) transfer of ownership
  - d) continuity of existence
  
3. What is a proxy?
  - a) an estimate (or approximation) of future results of a company.
  - b) verbal authorization given by a shareholder to allow an agent to vote his/her shares at a shareholders' meeting.
  - c) written authorization given by a shareholder to allow an agent to vote his/her shares at a shareholders' meeting.
  - d) another name for the preliminary prospectus.
  
4. A voting trust is *most* closely associated with...
  - a) start-up companies.
  - b) declining companies.
  - c) bankrupt companies.
  - d) restructuring companies.
  
5. Which of the following captures the relationship on the statement of financial position?:
  - a) ASSETS + LIABILITIES = SHAREHOLDERS' EQUITY
  - b) SHAREHOLDERS' EQUITY – ASSETS = LIABILITIES
  - c) ASSETS = LIABILITIES AND SHAREHOLDERS' EQUITY
  - d) CURRENT ASSETS = CURRENT LIABILITIES

6. A company purchased a machine for \$100,000,000. It has an estimated salvage value of \$10,000,000 and useful life of 5 years. Assuming that the company used double-declining balance depreciation method, what would the machine's accumulated depreciation be after two years of use?
- a) \$36,000,000
  - b) \$40,000,000
  - c) \$64,000,000
  - d) \$72,000,000
7. Refer to Question #6. Assume that at the end of the second year, it sold the machine for \$40,000,000. This would result in a...
- a) gain of \$4,000,000.
  - b) gain of \$12,000,000.
  - c) gain of \$16,000,000.
  - d) Insufficient information
8. A capital asset was purchased for \$10 million and is estimated to have a useful life of 5 years. Its salvage value is estimated at \$2 million. Under the straight line and declining balance methods, what would be written off as depreciation in the first year? (Straight line first)
- a) \$1.6 million; \$1.6 million
  - b) \$1.6 million; \$3.2 million
  - c) \$1.6 million; \$4.0 million
  - d) \$2.0 million; \$4.0 million
9. Which of the following is *not* true with respect to goodwill?
- a) It is a tangible asset that is tested annually for impairment.
  - b) Its value on the balance sheet should be viewed with caution.
  - c) When the carrying amount of goodwill exceeds its fair value, an impairment loss should be recognized.
  - d) It appears on consolidated balance sheets as the excess of the amount paid for shares over the net asset value.
10. Which of the methods of inventory valuation will *tend* to maximize reported profits in an inflationary environment?
- a) FIFO
  - b) Total Cost
  - c) Average Cost
  - d) Weighted Average Cost



11. Company A owns 5% of the voting shares of Company B. Therefore, it is *most* likely going to use the \_\_\_\_\_ of accounting.
- a) cost method
  - b) equity income
  - c) minority interest
  - d) subsidiary interest
12. You have a company's cash flow statement in front of you. In order to determine whether it paid out dividends in the previous year, you would examine the...
- a) investing activities section.
  - b) financing activities section.
  - c) operating activities section.
  - d) operating and financing activities sections.
13. Canadian corporate law...
- a) suggests that every limited company appoint an auditor to represent the Board of Directors and report to them annually.
  - b) requires that every limited company appoint an auditor to represent the shareholders and report to them annually.
  - c) suggests that every limited company appoint an auditor to represent management and report to shareholders annually
  - d) requires that every limited company appoint an auditor to represent the Board of Directors and report to shareholders annually.
14. Continuous public disclosure requirements include all of the following provisions *except*...
- a) comparative audited financial statements must be filed within 120 days of financial year-end for companies listed on the TSX Venture Exchange.
  - b) comparative audited financial statement must be filed within 90 days of financial year-end for senior issuers listed on the TSX.
  - c) comparative unaudited financial statements must be filed within 60 days of the end of each of the first three quarters of the financial year for companies listed on the TSX Venture Exchange.
  - d) comparative audited financial statements must be filed within 45 days of the end of each of the first three quarters of the financial year for senior issuers listed on the TSX.

15. A client, Ms. Huang, was contacted by her Investment Advisor on Monday April 10<sup>th</sup> and convinced to purchase an IPO issued under full prospectus requirements. On Tuesday April 11<sup>th</sup>, Ms. Huang received the final prospectus in the mail and called her Investment Advisor, thanking him for it. On Thursday morning – without looking at the document – she called back, attempting to cancel the trade. Which of the following *best* describes Ms. Huang's options?
- a) She would *not* be protected under the Right of Withdrawal because it was over 48 hours since she placed the trade to purchase the securities.
  - b) She would *not* be protected under the Right of Rescission because she did *not* read the prospectus.
  - c) She would be protected under the Right of Withdrawal because it was less than 48 hours since she received the final prospectus.
  - d) She would be protected under the Right of Rescission as long as she examined the final prospectus and found that there was at least one material misrepresentation.
16. XYZ Company currently holds 15% of the voting shares of DEF Company. What additional percent of the voting shares must it look to purchase in order to be bound by takeover bid provisions?
- a) 5%
  - b) 20%
  - c) 35%
  - d) 85%
17. The *most* important government securities distributors that maintain a certain threshold of activity are known as...
- a) major dealers.
  - b) primary dealers.
  - c) competitive tender dealers.
  - d) non-competitive tender dealers.
18. The *most* commonplace method Canadian corporations use to raise debt financing is the...
- a) negotiated offering.
  - b) competitive tender.
  - c) non-competitive tender.
  - d) closed-competitive tender.

19. A firm has 120 million shares outstanding and they are trading at \$15. It is considering issuing another 5 million shares, and if it does, it expects to raise \$70 million of investment capital because the extra supply will depress the price in a marketplace that is becoming increasingly nervous about equities. If it is correct that the new market equilibrium will be \$14 per share, after the secondary offering its market capitalization is expected to be...
- a) \$70 million
  - b) \$1.4 billion
  - c) \$1.75 billion
  - d) \$1.875 billion
20. The document that investment dealers prepare when a negotiation for a new issue of securities begins is referred to as the...
- a) prospectus.
  - b) simplified prospectus.
  - c) preliminary prospectus.
  - d) due diligence report.
21. Which of the following is the *least* valid reason why an investment dealer would advise a company to raise capital through a debt rather than an equity offering?
- a) Debt issues do *not* dilute equity ownership.
  - b) Debt may be the lowest after-tax cost source of financing.
  - c) Debt does *not* imply the responsibility to pay interest if the company is losing money in a given year.
  - d) Debt increases the rate of return earned by the owners of the corporation if the rate of return on the borrowed money exceeds its cost.
22. The waiting period is the time between...
- a) the preliminary prospectus and the time when the issue trades on the market.
  - b) the issuance of a receipt for a preliminary prospectus and receipt for a final prospectus.
  - c) the approval of the final prospectus and the time when the issue trades on the market.
  - d) the beginning of preparation of the preliminary prospectus and the time when the securities administrators approve it for final distribution.

23. In a bought deal,
- i) The issuing company assumes the risk.
  - ii) The underwriter pays the full proceeds to the issuer.
  - iii) The underwriter commits to buy a specified number of securities at a set price
- a) i) only
  - b) i) or ii) only
  - c) i) and iii) only
  - d) ii) and iii) only
24. All of the following are understood as disadvantages of listing *except...*
- a) additional disclosure.
  - b) additional costs to the company.
  - c) additional controls on management.
  - d) established and visible market value.
25. Trading in XYZ Company's shares commenced at its usual time of 9:30 a.m. Eastern Standard Time. Around mid-day, it alerts the exchange that it has a major announcement. As a result, the exchange might invoke a...
- a) halt in trading
  - b) delay in trading
  - b) suspension in trading
  - d) cancellation of the listing

## Chapters 11 – 12, Test #1 – Answers

- 1.A 11 – 3.
- 2.B 11 – 4/5.
- 3.C 11 – 6.
- 4.D 11 – 7.
- 5.C 11 – 9.
- 6.C 11 – 11/12.  
The depreciation rate is 40%:  $100/5 \times 2 = 40\%$ . Therefore, in the first year \$40,000,000 would be depreciated, leaving \$60,000,000 to be depreciated in year two at a rate of 40%, resulting in accumulated depreciation of \$64,000,000.
- 7.A 11 – 11/12.  
If \$64,000,000 has been depreciated, the machine has a net carrying value of \$36,000,000. If it is sold for \$40,000,000 this represents a \$4,000,000 gain.
- 8.C 11 – 11/12.  
Straight line depreciation is  $(\$10 \text{ million} - \$2 \text{ million}) / 5 \text{ years}$  or \$1.6 million per year. The rate for the double-declining balance method is 40%:  $100\% / 5 \times 2 = 40\%$ , and 40% of \$10 million is \$4 million.
- 9.A 11 – 13.
- 10.A 11 – 13/14.
- 11.A 11 – 18.
- 12.D 11 – 20/21.
- 13.B 11 – 22.
- 14.D 11 – 23.
- 15.C 11 – 24.
- 16.A 11 – 24/25.
- 17.B 12 – 4.
- 18.A 12 – 6.
- 19.C 12 – 6/7.  
 $125,000,000 \times \$14 = \$1.75 \text{ billion}$
- 20.D 12 – 8.
- 21.C 12 – 9.
- 22.B 12 – 13.
- 23.D 12 – 15/16.
- 24.D 12 – 19.
- 25.A 12 – 20.

## CSC VOLUME ONE: Chapters 11 – 12, Test #2

1. Which of the following investors/owners enjoy limited liability?
  - a) Sole proprietors and shareholders in corporations.
  - b) General partners and shareholders in corporations.
  - c) Limited partners and shareholders in corporations.
  - d) General partners, limited partners and shareholders in corporations.
  
2. Which of the following *must* accompany the notice of a shareholders' meeting?
  - a) a proxy form
  - b) an information circular
  - c) a proxy form and an information circular
  - d) a proxy form, information circular, and audited financial statements
  
3. A company began the year with \$40 million in assets and \$25 million in liabilities. At the end of the year, its assets had increased to \$42 million and its liabilities had decreased by \$4 million. Its shareholders' equity would stand at...
  - a) \$15 million
  - b) \$17 million
  - c) \$19 million
  - d) \$21 million
  
4. A company purchased a machine for \$50,000,000. It has an estimated salvage value of \$10,000,000 and useful life of 10 years. Assuming that the company used straight line depreciation, what would the machine's accumulated depreciation be after two years of use?
  - a) \$ 4,000,000
  - b) \$ 5,000,000
  - c) \$ 8,000,000
  - d) \$10,000,000
  
5. Refer to Question #4. Assume that at the end of the second year, it sold the machine for \$40,000,000. This would result in a(n)...
  - a) loss of \$10,000,000.
  - b) loss of \$8,000,000.
  - c) loss of \$2,000,000.
  - d) gain of \$2,000,000.
  
6. Which of the following is the *most* important impact of capitalizing an expenditure rather than expensing it?
  - a) Profits will be higher.
  - b) Liabilities will be lower.
  - c) Cash flow will be higher.
  - d) Debt outstanding will be lower.

7. Which of the following is *not* a current asset commonly found on the financial statements of many publicly traded companies?
- a) inventories
  - b) trade payables
  - c) prepaid expenses
  - d) cash and equivalents
8. A company has \$10 billion in bonds outstanding and another \$2 billion in accounts payables. When calculating ratios involving debt...
- a) only the bonds should be included.
  - b) both the bonds and accounts payables should be included.
  - c) both the bonds and accounts payables should be included if the accounts payables are overdue.
  - d) Neither the bonds nor accounts payables should be included.
9. The ownership threshold for share of profits of associates is traditionally...
- a) 10%.
  - b) 20%.
  - c) 25%.
  - d) 50%.
10. Actuarial gains and losses on defined benefit plans and gains and losses from currency translation are found in...
- a) statement of cash flows.
  - b) notes to financial statements.
  - c) other comprehensive income.
  - d) the statement of financial position.
11. The top line of the operating section of the cash flow statement is *usually*...
- a) revenue.
  - b) gross profit.
  - c) operating profit.
  - d) profit.
12. What is necessary in order for an investor to exercise the right of recession?
- a) The investor must *not* have received the prospectus.
  - b) There must have been something ambiguous in the prospectus.
  - c) There must have been an error in the prospectus, no matter how slight it may have been.
  - d) There must have been an untrue statement or omission of a material fact in the prospectus.

13. A takeover bid is an offer to buy more than...
- a) 20% of the voting securities of the company.
  - b) 20% of the total securities of the company.
  - c) 50% of the voting securities of the company.
  - d) 50% of the total securities of the company.
14. Which of the following *best* describes the regulations governing insider trading?
- a) Insiders are *not* allowed to trade under any circumstances.
  - b) Insiders are allowed to trade as long as they report their trades.
  - c) Insiders are allowed to trade as long as they report their trades and report the extent of their holdings.
  - d) Insiders are allowed to trade and do *not* have to report their trades to anyone.
15. Which organizations can submit bids to the Bank of Canada for Canadian Government bonds?
- a) primary dealers
  - b) primary and secondary dealers
  - c) government securities distributors
  - d) Any investment dealer registered with IIROC
16. The Government of Canada needs to raise \$5 billion in debt financing. It decides to allocate \$100 million of that on a non-competitive tender basis. If the highest winning bid (lowest yield was 2.25%) and the lowest winning bid (highest yield was 2.28%) and the average yield was 2.27%, then what yield would non-competitive tenders accept?
- a) 2.25%
  - b) 2.27%
  - c) 2.28%
  - d) Slightly greater than 2.28%
17. Which security or securities form a company's capital stock?
- a) common shares only
  - b) preferred shares only
  - c) common and preferred shares
  - d) common, preferred, and debt securities



18. A company is authorized to issue 10 million common shares with a par value of \$1 per share. Through its history, it has issued 6 million and 5 million are currently outstanding. If we were to calculate its earnings per share, we would consider the...
- a) 5 million shares outstanding.
  - b) 6 million shares issued.
  - c) 10 million shares authorized.
  - d) Any of the above is acceptable.
19. Refer to Q#18. Assume that the market price of the common shares is \$20. We would say that its market capitalization is...
- a) \$10 million.
  - b) \$100 million.
  - c) \$120 million.
  - d) \$200 million.
20. Why would an investment dealer recommend that a company issues debentures instead of bonds?
- a) Debentures come with a lower interest rate than bonds.
  - b) Debentures provide flexibility because there are no specific pledges or liens.
  - c) Debentures are more secure than bonds and that makes them more marketable.
  - d) Debentures are generally issued with longer maturities than bonds, putting off the eventual repayment of principal.
21. The information circular for in-house use only in the marketing of a new issue is known as the...
- a) greensheet.
  - b) preliminary prospectus.
  - c) red herring prospectus.
  - d) preliminary or red herring prospectus.
22. XYZ Company went public with an IPO of 100 million shares @ \$20 per share. The offering included an over-allotment option whereby a total of 105 million were actually sold. The dealer is *most* likely to exercise the over-allotment option under which of the following circumstances?
- a) XYZ declares bankruptcy and the shares become worthless.
  - b) XYZ common shares fall to \$17.
  - c) XYZ common shares remain at \$20.
  - d) XYZ common shares rise to \$24.

23. The NEX is a separate board of which exchange?
- a) TSX
  - b) CNSX
  - c) NYSE
  - d) TSX Venture
24. What is the process of raising start-up capital by soliciting contributions from the public at large, usually aided by online or internet-based systems?
- a) Crowdfunding
  - b) Venture Capital
  - c) Capital Pool Program
  - d) Options on Escrowed Shares
25. At 9:15 Eastern, just before market open, the CEO of XYZ Company suddenly resigns and a press release comes from the company, announcing that it is now under investigation by the FBI for securities violations. The exchange would be *most* likely to announce a...
- a) suspension.
  - b) halt in trading.
  - c) delay in trading.
  - d) delayed opening.

## CHAPTERS 11 – 12, TEST #2 – ANSWERS

- 1.C 11 – 3/4.
- 2.C 11 – 6.
- 3.D 11 – 9/10.  
At beginning of the year:  $\$40 - \$25 = \$15$  in Shareholders' Equity.  
At the end of the year:  $\$42 - \$21 = \$21$  in Shareholders' Equity.
- 4.C 11 – 11/12.  
Annual depreciation would be:  $(\$50 \text{ million} - \$10 \text{ million})/10 = \$4 \text{ million per annum}$   
After two years, accumulated depreciation would be  $\$8 \text{ million}$
- 5.C 11 – 11/12.  
Carrying value of the machine is  $\$42 \text{ million}$ . If the asset is sold for  $\$40 \text{ million}$ , then there is a loss of  $\$2 \text{ million}$ .
- 6.A 11 – 13.
- 7.B 11 – 13/15.
- 8.A 11 – 15/16.
- 9.B 11 – 18.
- 10.C 11 – 19.
- 11.D 11 – 20.
- 12.D 11 – 24.
- 13.A 11 – 25.
- 14.C 11 – 25.
- 15.C 12 – 4.
- 16.B 12 – 5.
- 17.C 12 – 6.
- 18.A 12 – 6/7.
- 19.B 12 – 5.  
5 million shares outstanding x  $\$20$  per share =  $\$100 \text{ million}$
- 20.B 12 – 9.
- 21.A 12 – 12.
- 22.D 12 – 15.
- 23.D 12 – 18.
- 24.A 12 – 18.
- 25.D 12 – 20.

# HALF EXAM #1

1. Which of the following is/are true of Canada's Schedule I Banks?
  - i) They are larger than Schedule II Banks
  - ii) They must be Canadian owned
  - iii) Voting shares must be widely held
  - a) i) only
  - b) i) & ii) only
  - c) ii) & iii) only
  - d) i), ii) & iii)
2. CIPF protects investors against...
  - a) fraudulent investment advisors.
  - b) volatile capital markets.
  - c) insolvency of member firms.
  - d) unfavourable arbitration decisions.
3. The exchange for financial futures and options in Canada is the...
  - a) Toronto Exchange
  - b) Ice Futures Canada
  - c) Canadian Venture Exchange
  - d) Bourse de Montreal
4. There is an exchange-traded debenture that is very thinly traded. The posted bid-offer is 85 – 92. We would describe this security as...
  - a) Liquid, but neither negotiable nor marketable
  - b) Marketable and liquid, but not negotiable
  - c) Negotiable and marketable, but not liquid
  - d) Liquid and negotiable, but not marketable
5. Which of the follow represents direct investment?
  - a) An investor buys IBM shares for his RRSP account on the New York Stock Exchange
  - b) A pension fund participates in a private placement of Ford Commercial Paper
  - c) IBM uses its excess cash to invest in Treasury bills issued by the US Government
  - d) Ford purchases IBM software to help manage its supply chain management

6. Mr. Kumar was called by his broker on Tuesday afternoon and at that time, Mr. Kumar placed an order for 10,000 shares that was being distributed under prospectus requirements. Two days later he received the prospectus, and when he reviewed it over the weekend, he changed his mind and called his broker on Monday morning, and left a message that he was no longer interested in purchasing those 10,000 shares. According to the protections under prospectus requirements...
- a) he would be protected under the Right of Withdrawal.
  - b) he would *not* be protected under the Right of Withdrawal because he failed to call back within two days of placing the order.
  - c) he would *not* be protected under the Right of Withdrawal because he failed to call back within two days of receiving the prospectus.
  - d) he would be protected under the Right of Rescission because information in the prospectus must have disturbed him.
7. Which of the following is least likely to be considered an “insider” of Black Company?
- a) Black Company itself.
  - b) Mr. Red, the past CEO.
  - c) Mr. Pink, the current CEO.
  - d) Ms. Mauve, owner of 15% of its voting shares.
8. If Canada is running a surplus in its current account...
- a) it is importing more than it is exporting
  - b) it is also running a surplus in its capital account
  - c) it is running a deficit in its capital account
  - d) its Balance of Payment are temporarily out of balance
9. To relieve undesired upward pressure on overnight financing rates the Bank of Canada uses...
- a) SPRAs or Specials
  - b) SRAs
  - c) closed market operations
  - d) LVTSS
10. All of the following are closely watched leading indicators *except*...
- a) housing starts
  - b) manufacturers' new orders
  - c) stock prices
  - d) retail sales

11. All of the following are major functions of the Bank of Canada *except*...
- a) balancing the federal budget
  - b) issuance and removal of bank notes
  - c) acting as the Government's fiscal agent
  - d) conducting monetary policy
12. In the \_\_\_\_\_ phase of the business cycle, falling demand and excess capacity curtail the ability of firms to raise prices. Inflation falls and interest rates follow...
- a) expansion
  - b) recession
  - c) contraction
  - d) trough
13. Which of the following statements about unemployment are you *least* likely to agree with?
- a) Cyclical unemployment is highest when the economy is weak.
  - b) Frictional unemployment is part of a normal, healthy economy.
  - c) Structural unemployment tends to last longer than frictional unemployment.
  - d) If the economy is strong, unemployment should stand at 0%.
14. The *most* important component of the current account is...
- a) the capital account
  - b) foreign investment in Canada
  - c) Canadian investment in foreign countries
  - d) merchandise trade in goods and services
15. If the Bank of Canada is raising interest rates, in order for fiscal policy to be aligned, the Federal Government should be...
- a) increasing spending and increasing taxes
  - b) increasing spending and reducing taxes
  - c) reducing spending and increasing taxes
  - d) reducing spending and reducing taxes
16. Which of the following is *not* true of duration?
- a) Duration combines the impact of the coupon rate and term to maturity into one calculation.
  - b) The higher the duration, the more volatile the price of the bond.
  - c) Duration is measured in years.
  - d) The bond's duration does *not* change over time.

17. All of the following are categories of restricted or special shares *except*:
- a) non-voting
  - b) subordinate voting
  - c) restricted voting
  - d) non-restricted voting
18. What is the current capital gains exemption?
- a) 25%.
  - b) 50%.
  - c) 100%.
  - d) There is no such thing as a capital gains exemption.
19. A long-term bond was issued in 2010. Since that time, interest rates have declined sharply. We would expect that this bond...
- a) is trading at a discount.
  - b) is trading at a premium.
  - c) has lost value.
  - d) will no longer be redeemable at par.
20. If a holding company wanted to add debt to its Capital structure, it would issue...
- a) collateral trust bonds
  - b) equipment trust certificates
  - c) first mortgage bonds
  - d) serial debentures
21. An investor owns a cumulative preferred share that pays a quarterly dividend of \$.50 per share. The company is in arrears for two quarters. If the Board of Directors wanted to pay common shareholders a dividend of \$.25 per share, the preferred shareholders would receive...
- a) \$0.00
  - b) \$ .50
  - c) \$1.00
  - d) \$1.50
22. An investor purchased 1,200 shares of SYZ security at a price of \$1.80 per share. What is the margin required?
- a) \$ 432.00
  - b) \$ 864.00
  - c) \$1,080.00
  - d) \$1,296.00

23. The shares in Question #22 subsequently increase in price to \$2.05. What will happen to the client's margin position?
- a) There will be a margin surplus of \$366.00.
  - b) There will be a margin surplus of \$612.00.
  - c) There will be a margin surplus of \$981.00
  - d) There will be a margin deficit of \$150.00.
24. A T-bill with 125 days to maturity is priced at 98.75. What is its yield?
- a) 1.27%
  - b) 2.54%
  - c) 3.65%
  - d) 3.70%
25. An investor short-sold 700 shares of a security eligible for reduced margin at a price of \$18. What is the margin the investor is required to deposit?
- a) \$ 3,780
  - b) \$ 6,300
  - c) \$12,600
  - d) \$16,380
26. The investor who short-sold in Question #25 subsequently offset at \$21. What is his profit or loss?
- a) \$ 300 profit
  - b) \$2,100 loss
  - c) \$ 700 profit
  - d) \$14,700 loss
27. Generally speaking, an important difference between sinking funds and purchase funds is that...
- a) the sinking fund is a convenience to the holder, the purchase fund a convenience to the issuer.
  - b) the sinking fund is a convenience to the holder, the purchase fund does not affect the holder.
  - c) the sinking fund is a convenience to the issuer, the purchase fund helps create a minimum amount of liquidity at prices below par.
  - d) there are no differences between sinking funds and purchase funds.



28. The three major bond rating agencies, Dominion Bond Ratings Service, Moody's Canada and Standard and Poor's all changed their ratings on XYZ's bonds from BBB to B. Which of the following is *most* likely to occur as a result?
- a) The price of XYZ's bonds would decline in value and the price of its common shares would be unaffected.
  - b) The price of XYZ's bonds would decline in value and the price of its common shares would decline in value.
  - c) The price of XYZ's bonds would decline in value and the price of its common shares would increase in value.
  - d) The price of XYZ's bonds would increase in value and the price of its common shares would decline in value.
29. What happens to the price of a T-Bill as it nears maturity?
- a) It decreases.
  - b) It is unaffected.
  - c) It increases.
  - d) Insufficient information.
30. An investor short-sold an equity and is looking for an order that will protect her against a sudden price increase. The appropriate order type would be a...
- a) limit order
  - b) all or none order
  - c) stop-buy order
  - d) stop-loss order
31. An investor purchased a 7% coupon bond with two years to maturity at 103. What is the yield to maturity?
- a) 5.32%
  - b) 5.38%
  - c) 5.55%
  - d) 5.62%
32. Which of the following bonds would tend to be *least* volatile?
- a) A five year bond with a 10% coupon
  - b) A five year bond with a 12% coupon
  - c) A three year bond with a 6% coupon
  - d) A three year bond with a 4% coupon
33. "Sell my 700 shares of ABC at \$14.00 for all of the next month." This is an example of a...
- a) all or none order
  - b) open order
  - c) good till cancelled
  - d) good through

34. A multi-national conglomerate holds an inventory of raw materials in its inventory which it sells at regular periods of time. It believes that commodities will appreciate sharply over the next few months, but wants insurance in case there is a pull-back in prices. You would recommend that the company...
- a) buys puts
  - b) sells calls
  - c) buys forwards
  - d) sells futures
35. What is the present value of the second coupon payment of a 6% semi-annual bond assuming a discount rate of 7%?
- a) \$28.01
  - b) \$32.14
  - c) \$32.99
  - d) \$56.02

Questions #36 – #38 are based on the following stock quote:

52 WEEKS

HIGH	LOW	STOCK	DIV	HIGH	LOW	CLOSE	CHANGE	VOL.
36.00	23.25	BDF	.40	30.00	29.15	29.25	-.45	40,000

36. What is the lowest price that this security has traded in the past 24 hours?
- a) \$23.25
  - b) \$28.80
  - c) \$29.15
  - d) \$29.70
37. If an investor holds 1,000 shares of this security and its dividend policy is standard, how much will that investor receive on the next pay date assuming that she continues to hold the shares?
- a) \$ 40
  - b) \$100
  - c) \$400
  - d) Insufficient information
38. What was the previous day's closing price?
- a) \$28.80
  - b) \$29.25
  - c) \$29.70
  - d) \$30.00

39. Why would a company order a reverse stock split or stock consolidation?
- a) It wants to increase its market capitalization.
  - b) The share price is currently too high for retail investors.
  - c) It wants to improve its working capital.
  - d) It wants to raise the market price of its shares to attract institutional investors.
40. A company declares a dividend payable Tuesday December 30<sup>th</sup> to shareholders of record as of Wednesday December 10<sup>th</sup>. What is the last day that an investor could buy the shares in order to receive that dividend?
- a) Friday December 5
  - b) Monday December 8
  - c) Wednesday December 10
  - d) Monday December 15
41. A bond that is sold at a deep discount and does not make any interest payments is known as a zero coupon or...
- a) compounding bond
  - b) strip bond
  - c) unit bond
  - d) mortgage bond
42. An investor believes that the British economy will outperform over the next decade and wants to participate in the anticipated profits. You would recommend that she purchase the...
- a) DAX
  - b) CAC 40
  - c) FTSE 100
  - d) S & P 500
43. A corporation is considering issuing preferred shares. Which of the following type of preferred shares will allow it to minimize its dividend payments?
- a) straight preferred
  - b) callable preferred
  - c) convertible preferred
  - d) non-cumulative preferred
44. Goodwill appears on the Balance Sheets of companies...
- a) that are popular with their customers.
  - b) that have purchased other companies for more than the latter's book value.
  - c) that have significant deferred charges as an offsetting position.
  - d) that do not amortize their intangible assets

45. Another name for the preliminary prospectus is the...
- a) red herring prospectus
  - b) simplified prospectus
  - c) greensheet
  - d) due diligence report
46. Arbitrations claims must *not* exceed...
- a) \$100,000.
  - b) \$250,000.
  - c) \$500,000.
  - d) There is no limit on arbitration claims.
47. Current assets are listed on a balance sheet...
- a) in order of value.
  - b) in order of importance.
  - c) in order of liquidity.
  - d) in alphabetical order.
48. If there were a major announcement made by a company that occurred in the middle of the day, the exchange might invoke a...
- a) delayed opening.
  - b) halt in trading.
  - c) temporary delay.
  - d) suspension in trading.
49. Recording an expenditure as an asset rather than an expense is...
- a) illegal.
  - b) capitalizing.
  - c) intangible.
  - d) a deferred charge.
50. You are the treasurer of a company and have wide discretion with respect to selecting accounting procedures. If your company is planning a secondary issue of shares in the near future and wants to report as high a profit figure as possible during a time of rising prices, the preferred inventory method would be...
- a) FIFO
  - b) Average Cost
  - c) Marginal Cost
  - d) Total Cost

## CSC ONE HALF EXAMINATION #1 - ANSWERS

1D	2C	3D	4C	5D	6A	7B	8C	9A	10D
11A	12D	13D	14D	15C	16D	17D	18B	19B	20A
21D	22D	23A	24D	25A	26B	27C	28B	29C	30C
31B	32C	33D	34A	35A	36C	37B	38C	39D	40B
41B	42C	43C	44B	45A	46	47C	48B	49B	50A

## HALF EXAM #2

1. Mr. and Mrs. Li are married and both have their investment accounts with DT Securities. Mr. Li has \$1,250,000 in his RRSP Account and \$500,000 in his Canadian trading account and \$800,000 in his US trading account. Mrs. Li has \$700,000 in her RRSP account and \$575,000 in her Canadian Trading Account. If DT Securities were bankrupt, how much protection would the Li family enjoy?
  - a) \$1,000,000
  - b) \$2,000,000
  - c) \$3,275,000
  - d) \$3,825,000
  
2. A liquid market is characterized by all of the following conditions *except*...
  - a) frequent sales
  - b) wide price spread between bid and offering prices
  - c) small price fluctuations from sale to sale
  - d) narrow price spread between bid and offering prices
  
3. An investor purchased 500 shares of an IPO that was issued under prospectus requirements. Three days after receiving the final prospectus in the mail, she notices that there is a material misrepresentation in the prospectus. What *best* describes her recourse?
  - a) She would not be able to get out of the deal because more than 48 hours have passed.
  - b) She would be able to get out of the deal under the Right of Withdrawal.
  - c) She would not be able to get out of the deal but is protected under the Right of Action for Damages if the shares decline in price.
  - d) She would be able to get out of the deal under the Right of Rescission.
  
4. Dealer markets are also known as...
  - a) listed markets.
  - b) auction markets.
  - c) over-the-counter markets.
  - d) under-the-counter markets
  
5. IIROC market surveillance activities include all of the following *except*...
  - a) monitoring the margin positions in client accounts
  - b) carrying out trading analysis and compliance with UMIR.
  - c) ensuring dealer members comply with timely disclosure.
  - d) real time monitoring of trading activity on the TSX and TSX Venture and other Canadian exchanges.

6. What is the time frame within which a directors' circular must be sent to the security holders of the target company?
- a) 48 hours
  - b) one week
  - c) fifteen days
  - d) A directors' circular is not mandatory, it is optional.
7. On the TSX Venture, continuous disclosure requirements mean...
- a) audited financial statements must be submitted within 45 days of the end of the quarter and audited financial statements must be submitted within 90 days of the financial year-end.
  - b) unaudited financial statements must be submitted within 60 days of the end of the quarter and unaudited financial statements must be submitted within 120 days of the financial year-end.
  - c) audited financial statements must be submitted within 90 days of the end of the quarter and audited financial statements must be submitted within 120 days of the financial year-end.
  - d) unaudited financial statements must be submitted within 60 days of the end of the quarter and audited financial statements must be submitted within 120 days of the financial year-end.
8. If Canada has higher inflation than the United States, this should lead to...
- a) lower interest rates in Canada and a weaker Canadian dollar.
  - b) higher interest rates in Canada and a stronger Canadian dollar.
  - c) lower interest rates in Canada and a stronger Canadian dollar.
  - d) higher interest rates in Canada and a weaker Canadian dollar.
9. "Demand has begun to outstrip the capacity of the economy... labour and product shortages cause wage increases... interest rates rise and bond prices fall..." This describes which phase of the business cycle?
- a) expansion
  - b) peak
  - c) recession
  - d) recovery
10. The value of all goods and services produced within a country in a given year is measured by...
- a) GDP.
  - b) GNP.
  - c) the business cycle.
  - d) exogenous growth.

11. How does Statistics Canada judge a recession?
- a) By how much unemployment is increasing.
  - b) By how much unemployment is increasing and GDP is decreasing.
  - c) By the depth, duration and diffusion of the decline in business activity.
  - d) Statistics Canada is *not* involved in judging a recession.
12. The economy is in the expansion phase of the business cycle. Prudent fiscal policy would be to...
- a) reduce spending and raise taxes.
  - b) increase spending and raise taxes.
  - c) lower interest rates by increasing the money supply.
  - d) raise interest rates by decreasing the money supply.
13. If Canada has a deficit in its current account, which of the following is *least* likely to be true?
- a) The balance of payments remains balanced.
  - b) Canada is importing more than it is exporting.
  - c) Foreigners are investing more in Canada than Canadian are investing abroad.
  - d) Canada is suffering through recessionary conditions.
14. When government revenue exceeds spending...
- a) the government is running a deficit and it should issue bonds.
  - b) the government is running a surplus and it should issue bonds.
  - c) the government is running a deficit and it could buy back bonds.
  - d) the government is running a surplus and it could buy back bonds.
15. Which of the following is *not* true of the Bank Rate?
- a) It will always be lower than the Prime Rate.
  - b) It is the lower limit of the operating band for the Overnight Rate.
  - c) Lowering the Bank Rate has the impact of stimulating the economy.
  - d) It is the minimum rate at which the Bank of Canada will lend money to the chartered banks and other members of the CPA.



16. The primary benefit of a zero coupon bond is that...
- a) the holder does not pay tax until maturity.
  - b) the difference between the issue price and par value is taxed as a capital gain rather than interest income.
  - c) sinking fund provisions guarantee liquidity in the after-market.
  - d) the holder knows with certain the compounded rate of return.
17. An investor believes that the French economy will outperform over the next decade and wants to participate in the anticipated profits. You would recommend that she purchase the...
- a) DAX
  - b) CAC 40
  - c) FTSE 100
  - d) S & P 500
18. "I want you to sell my shares immediately because I don't want to lose any more money!" This should be understood as an example of a...
- a) stop-loss order
  - b) limit order
  - c) market order
  - d) good through order
19. An investor wrote 100 put contracts. This means that she...
- a) has the right to sell 100 shares
  - b) has the right to sell 10,000 shares
  - c) has the obligation to buy 100 shares
  - d) has the obligation to buy 10,000 shares
20. Municipalities commonly use this security to raise capital.
- a) Mortgage bonds
  - b) Savings bonds
  - c) Subordinated debentures
  - d) Instalment debentures

Questions #21 & #22 refer to the following bond quote...

ISSUE	COUPON	MATURITY DATE	BID	OFFER
DEF Company	6.25%	1 Oct 11	97.25	97.75

21. How much would it cost to purchase \$100,000 face value of this bond?
- a) \$97,250
  - b) \$97,750
  - c) \$97,750 plus accrued interest
  - d) \$100,000 less accrued interest
22. What is the current yield of the bond?
- a) 6.25%
  - b) 6.39%
  - c) 6.43%
  - d) Insufficient information
23. A company is authorized to issue 50,000,000 shares. Currently, it has 30,000,000 outstanding at a price of \$45 per share. If a 3 for 1 stock split is issued, how many shares will be outstanding and at what price?
- a) 10,000,000 at \$45
  - b) 10,000,000 at \$15
  - c) 90,000,000 at \$15
  - d) 150,000,000 at \$45
24. What type of GIC is evenly divided into multiple-term lengths?
- a) Laddered
  - b) Instalment
  - c) Index-linked
  - d) Interest-rate linked
25. Which of the following is an example of a Foreign bond?
- a) TD Bank issues a bond denominated in Canadian dollars in the American market.
  - b) TD Bank issues a bond denominated in US dollars in the Canadian market.
  - c) TD Bank issues a bond denominated in US dollars in the Japanese market.
  - d) TD Bank issues a bond denominated in US dollars in the US market.

26. A \$250,000 6% semi-annual pay bond that matures October 1, 2020 trades at 99. If it were sold by the holder and the trade settled December 10<sup>th</sup>, what is the amount of accrued interest that the buyer would owe the seller?
- a) \$2,876.71
  - b) \$3,132.48
  - c) \$4,561.64
  - d) \$7,500.00
27. A company that is in financial distress has \$50 par value preferred shares that are currently trading at \$40. If the company is forced into liquidation, how much would the preferred shareholder receive before the common shareholders would get anything for their investment?
- a) \$10.00
  - b) \$40.00
  - c) \$50.00
  - d) Common shareholders would be paid out before preferred shareholders.
28. The higher the discount rate...
- a) the lower the present value of a bond.
  - b) the higher the present value of a bond.
  - c) the lower the coupon rate of the bond.
  - d) the higher the effective yield of the bond.
29. What is the purpose of a voting trust?
- a) It helps a corporation when it is restructuring.
  - b) It helps a company through the IPO phase.
  - c) It is used when a shareholder meeting must be postponed due to extraordinary circumstances.
  - d) It is used when a public company is taken private.
30. If both a Professional Order and a client order compete for the same price and the same security, the preferential trading rule states that...
- a) priority is always given to the order that was placed first.
  - b) priority is always given to the client order.
  - c) priority is always given to the order that will generate the most commission.
  - d) priority is always given to the Professional's order.
31. Buy-side firms typically divide investment management duties into...
- a) portfolio manager and trader.
  - b) portfolio manager and analyst.
  - c) portfolio manager and sell side analyst.
  - d) sell side analyst and inter-dealer broker.

32. A company is deciding to issue preferred shares or debentures to raise capital. Which of the following would be a valid reason *not* to issue preferred shares?
- a) Dividends on preferred shares must be paid while paying interest on debentures is up to the discretion of the Company Treasurer.
  - b) Dividends on preferred shares are paid with after-tax dollars while the interest on debentures is a tax deductible expense.
  - c) Dividends on preferred shares are generally paid out annually while interest on debentures is due quarterly.
  - d) Dividends on preferred shares get less favourable tax treatment for investors than does interest received from debentures
33. Higher inflation will...
- a) increase the nominal rate of return required by an investor.
  - b) increase the real rate of return required by an investor,
  - c) decrease the nominal rate of return required by an investor
  - d) not affect an investor's return.
34. A T-bill with 270 days to maturity is priced at 99.00. What is its yield?
- a) 1.01%
  - b) 1.29%
  - c) 1.35%
  - d) 1.37%
35. An investor purchased a 5% coupon bond with two years to maturity at 104. What is the yield to maturity?
- a) 1.5%
  - b) 2.9%
  - c) 3.6%
  - d) 4.8%
36. Which of the following bonds would tend to be *most* volatile?
- a) A ten year bond with a 6% coupon
  - b) A ten year bond with a 12% coupon
  - c) A twenty year bond with a 6% coupon
  - d) A twenty year bond with a 12% coupon
37. The FTSE TMX Canada Universe Bond Index...
- a) tracks Canadian government bonds only.
  - b) tracks Canadian corporate bonds only.
  - c) tracks both Canadian government and corporate bonds.
  - d) tracks all Canadian government bonds and American government bonds.

38. An investor believes that the German economy will outperform over the next decade and wants to participate in the anticipated profits. You would recommend that she purchase the...
- a) DAX
  - b) CAC 40
  - c) FTSE 100
  - d) S & P 500
39. Which of the sectors on the S&P/TSX Composite receives the least amount of weight?
- a) Health Care and Utilities
  - b) Financials and Health Care
  - c) Energy and Information Technology
  - d) All 10 Sectors are equally weighted

Please use the following information for Questions #40 & #41.

40. A company with 100 million shares outstanding declares a rights offering where 10 rights plus \$10 will entitle the investor to buy one treasury shares. The common shares currently trade at \$11 each. What is the value of one right during the ex-rights period, assuming that the common shares increase to \$11.50 per share after the rights offering is declared?
- a) \$.09
  - b) \$.10
  - c) \$.14
  - d) \$.15
41. Assume that the rights offering was fully subscribed. How many common shares would be outstanding?
- a) 10 million
  - b) 100 million
  - c) 110 million
  - d) 200 million
42. Which of the following is not true with respect to dangers associated with short selling?
- a) The seller is theoretically exposed to an infinite loss.
  - b) The short seller is responsible for paying dividends.
  - c) The short seller may subject to buy-in requirements at any time.
  - d) The short seller is *not* allowed to buy back the shares if the market starts appreciating rapidly.

43. Under cash account rules, equities must be fully paid...
- a) on the trade date.
  - b) the business day following the trade date.
  - c) two days after the trade date.
  - d) three business days after the trade date.
44. A piece of capital equipment was purchased for \$250,000 and is expected to have salvage value of \$10,000 after its useful life of 8 years is exhausted. What will be the amount of depreciation written off in year three according to the straight line method?
- a) \$30,000
  - b) \$31,250
  - c) \$90,000
  - d) \$93,750
45. The period of time between the issuance of a receipt for a preliminary prospectus and receipt for a final prospectus is known as the...
- a) solicitation period
  - b) waiting period
  - c) waiting time
  - d) grey market
46. An incorporated company's Common Shares were issued with a Par Value of \$1. An investor bought 1,000 shares at the IPO price of \$10 per share, then years later purchased another 1,000 shares at \$25 per share. If the company declares bankruptcy and there are 1 million shares outstanding and its obligations total \$2 billion, what will the investor owe the various debtors?
- a) Nothing because of the principle of limited liability.
  - b) Nothing because the Board of Directors are personally responsible for the shortfall.
  - c) \$1,000 because that represents the Par Value of the Common Shares.
  - d) \$35,000 because that was the original investment.
47. Which of the following individuals would be entitled to vote at a shareholders' meeting?
- i) A registered shareholder
  - ii) The company officers
  - iii) A valid proxy holder
- a) i) only
  - b) i) & ii) only
  - c) i) & iii) only
  - d) i), ii) & iii)

48. All of the following are headings on the cash flow statement except:
- a) operating activities
  - b) expenditure activities
  - c) financing activities
  - d) investing activities
49. The key principle(s) behind insider trading regulations is/are to ensure that...
- a) insiders file their intent to buy or sell shares in advance of the purchases or sales.
  - b) insiders pay their fair share of taxes on the gains they make.
  - c) insiders report regularly and do *not* make use of undisclosed information.
  - d) insiders do *not* trade under any circumstances
50. A common reason why a company's shares are suspended is because...
- a) there is a pending merger.
  - b) the company is without assets or bankrupt.
  - c) the public distribution has dwindled to an acceptably low level.
  - d) the company's financial condition does *not* meet the exchange's requirements.

## CSC ONE HALF EXAMINATION #2 - ANSWERS

1C	2B	3D	4C	5A	6C	7D	8D	9B	10A
11C	12A	13D	14D	15B	16D	17B	18C	19D	20D
21C	22B	23C	24A	25D	26A	27C	28A	29A	30B
31A	32B	33A	34D	35B	36C	37C	38A	39A	40D
41C	42D	43D	44A	45B	46A	47C	48B	49C	50D



# FINAL EXAM

1. Macroeconomics looks to answer all of the following questions *except*...
  - a) Why did total output shrink this quarter?
  - b) Will an increase in interest rates slow economic growth?
  - c) Will a cut in the GST increase automobile sales?
  - d) How can a nation improve its per capita GDP?
  
2. Which of the following parties can compete for new issues of Canada Government Debt Securities through the competitive tender system?
  - a) government securities distributors
  - b) primary dealers
  - c) secondary dealers
  - d) primary and secondary dealers
  
3. Which of the following is *not* true with respect to private corporations?
  - a) They provide shareholders with limited liability.
  - b) There is a prohibition against members of the public subscribing to their securities.
  - c) They have restrictions in their charters on the right of shareholders to transfer shares.
  - d) They have a limitation which means that there may not be less than fifty shareholders.
  
4. If a bond's yield is greater than its coupon rate...
  - a) it will likely default.
  - b) It is trading at a premium.
  - c) it is trading at a discount.
  - d) Its term to maturity exceeds its duration.
  
5. If you bought a 225 day T-bill at 97.25, its yield would be...
  - a) 1.74%
  - b) 2.83%
  - c) 4.46%
  - d) 4.59%

6. "Notice is hereby given that distributions were declared to Shareholders of record as of (Thursday) June 15<sup>th</sup> payable Friday June 30<sup>th</sup> for Mill's Common Shares..." In order to receive this dividend, the latest day you could buy Mill's Common Shares is...
- a) Monday June 12<sup>th</sup>
  - b) Tuesday June 13<sup>th</sup>
  - c) Thursday June 15<sup>th</sup>
  - d) Tuesday June 27<sup>th</sup>
7. As a general rule, fast-growing companies such as those in the technology field, tend to pay out...
- a) a low percentage of their earnings in the form of dividends.
  - b) a high percentage of their earnings in the form of dividends.
  - c) a low dollar amount of their earnings in the form of dividends even though this is typically a high percentage amount.
  - d) a high dollar amount of their earnings in the form of dividends even though this is typically a low percentage amount.
8. Which of the following is *not* one of the features common to all derivatives?
- a) All derivatives have a price associated with them.
  - b) All derivatives have an expiration date.
  - c) All derivatives have a premium attached to them.
  - d) Derivatives can be considered a zero-sum game.
9. IBM issued bonds so that it can build a new research center in India. We would say that...
- a) issuing bonds is an example of direct investment.
  - b) building the research center is an example of indirect investment.
  - c) issuing bonds is an example of indirect investment and building the research center is an example of direct investment.
  - d) issuing bonds is an example of indirect investment and building the research center is an example of indirect investment.
10. A labour economist estimates that the natural unemployment rate in the United States is 6%. If unemployment is currently 10%, then all of the following are true except...
- a) Cyclical unemployment is 4%.
  - b) Cyclical unemployment is 6%.
  - c) Structural and frictional unemployment is 6%.
  - d) Structural and frictional unemployment exceeds cyclical unemployment.

11. The Province of Ontario issues a 10 year bond for a Crown Corporation through a fiscal agent. This is an example of a...
- a) guaranteed bond
  - b) direct bond
  - c) depository security
  - d) fiscal agency agreement
12. What must accompany the notice of a shareholder meeting?
- a) a proxy form
  - b) an information circular
  - c) a proxy form and an information circular
  - d) a proxy form, an information circular and Annual Report
13. A firm needs money for a 10-year term and wants to lower its interest expense. You would recommend that it issues...
- a) 10-year straight bonds
  - b) 10-year callable bonds
  - c) 10-year redeemable bonds
  - d) 10-year bonds with a mandatory sinking fund provision
14. Bond indexes are used in all of the following ways except...
- a) to construct bond funds
  - b) as a performance measurement tool
  - c) for term extension or reduction
  - d) as a guide to the performance of the overall bond market
15. An investor put \$5,000 into a margin account and bought 5,000 shares of a stock that traded at \$1.00 per share. Six months later, the shares were trading at \$2.00 per share. Which of the following best describes this investor's options at that point in time?
- a) The investor could purchase additional shares of this company only.
  - b) The investor could purchase additional shares of this company or any other company.
  - c) The investor could purchase additional shares of this company or any other company, or borrow money against the position by withdrawing funds.
  - d) The investor could not do any of the above until some of the shares were sold and cash was available in the account.
16. A key difference between exchange-traded and OTC derivatives is that...
- a) OTC derivatives provide greater standardization.
  - b) Exchange-traded derivatives provide greater privacy.
  - c) OTC derivatives provide greater liquidity.
  - d) Exchange-traded derivatives provide lower default risk.

17. Preferred shares are best at meeting which of the following investment objectives?
- a) growth and liquidity
  - b) growth and tax minimization
  - c) income and tax minimization
  - d) safety and liquidity
18. You are reading the business section of the newspaper and see that although capacity utilization is low, automobile sales and new home sales are increasing. Unemployment remains high which in turn means that wage pressures are restrained. You would conclude that the economy is in the \_\_\_\_\_ phase of the business cycle.
- a) contraction
  - b) trough
  - c) recovery
  - d) expansion
19. A private company is in the process of going public. Most provinces would require that it files...
- a) either a preliminary or red herring prospectus.
  - b) both a preliminary and red herring prospectus.
  - c) both a preliminary (or red herring prospectus) and a final prospectus.
  - d) a final prospectus only.
20. ABC's Company Charter authorizes it to issue 10 million common shares. It issues 5 million, then the company declares a 2 for 1 stock split. Subsequently, it buys back 1 million shares in the marketplace. Which of the following is true?
- a) The Company is now authorized to issue an additional 4 million shares.
  - b) The Company is now authorized to issue an additional 5 million shares.
  - c) The Company is now authorized to issue an additional 10 million shares.
  - d) The Company is now authorized to issue an additional 11 million shares.
21. The forced conversion clause is an advantage to the...
- a) the company that issues convertible bonds
  - b) the investor who buys convertible bonds
  - c) the investment dealer who underwrites convertible bonds
  - d) All of the above.

22. A three year, annual-pay bond with a 6% coupon is currently trading at 104.50. An investor with a 4% discount rate...
- a) would buy the bond because the discount rate is less than the percent by which it is above its issue price
  - b) would buy the bond because its present value of 105.55 is below its current market price of 104.50.
  - c) would buy the bond because its present value of 105.55 is above its current market price of 104.50
  - d) would not buy the bond because its market price of 105.55 is above its maturity value of 100
23. An investor purchased 1,000 shares of ABC Company at \$12 per share. When the company was \$25, the company issued a five for one split. She subsequently sold 1,000 shares at \$10. Her profit on this transaction would be...
- a) \$ 2,000
  - b) \$ 7,600
  - c) \$10,000
  - d) \$12,000
24. NET common shares are currently trading at \$20 per share. NET convertible preferred shares with a par value of \$50, currently trade for \$60 in the market and are convertible into 2.4 common shares. The convertible has a dividend yield of 2.0%. As a result, the preferred share's conversion cost premium is...
- a) 20%
  - b) 23%
  - c) 25%
  - d) 27%
25. A copper-mining company is enjoying the historically high prices and believes that copper prices will trend upward – but fearful that they might pull back significantly in six months. In order to protect its downside yet still enjoy the gains in case copper continues to appreciate in price, it should...
- a) buy puts
  - b) sell calls
  - c) buy futures
  - d) sell forwards
26. In Canada, income trusts and ETFs trade on the...
- a) Toronto Stock Exchange (TSX)
  - b) Toronto Venture Exchange
  - c) Bourse de Montreal
  - d) ICE Futures Canada Exchange

27. Which of the following correctly places an important leading, co-incident and lagging indicator in the correct order?
- a) unemployment, retail sales, inflation
  - b) housing starts, retail sales, unemployment
  - c) inflation, retail sales, private sector spending on plant and equipment
  - d) housing starts, GDP, manufacturers' new orders
28. All of the following are true of bought deals *except*...
- a) under a bought deal, the dealer acts as a principal.
  - b) in bought deals, an investment dealer negotiates with the issuer directly.
  - c) once regulatory approval is received, the bought issue is sold either as a private placement or public issue under the short form prospectus.
  - d) the spread between the dealer's cost and final selling price is far higher than under typical, full prospectus underwriting arrangements.
29. Which of the following does *not* correctly capture the Balance Sheet relationship?
- a)  $ASSETS = LIABILITIES + SHAREHOLDERS EQUITY$
  - b)  $ASSETS - LIABILITIES = SHAREHOLDERS EQUITY$
  - c)  $LIABILITIES = ASSETS - SHAREHOLDERS EQUITY$
  - d)  $SHAREHOLDERS EQUITY = LIABILITIES - ASSETS$
30. All of the following are common protective provisions associated with bonds except...
- a) security.
  - b) dividend test.
  - c) negative pledge.
  - d) retraction funds.
31. Which level(s) of government in Canada commonly use installment or serial debentures?
- a) municipal
  - b) provincial
  - c) federal
  - d) All of the above

32. A reverse stock split is utilized when...
- a) a company wants to reduce the cost of its shares to make them more attractive to retail investors.
  - b) a company wants to reduce the cost of its shares to make them more difficult to margin.
  - c) a company wants to increase the cost of its shares when it is in danger of being delisted by a stock exchange because its share price has fallen below the exchange's minimum share price rule.
  - d) a company wants to increase the number of its shares to make them more attractive to institutional investors like mutual funds and pension plans.
33. An investor had \$5,000 in her account at the start of the day. When the market on a security was \$1.90 - \$1.95, she put in an order to purchase 5,000 shares at the market. She was filled at the ask price and deposited sufficient margin that evening (the security was valued at its bid of \$1.90). The next day, the stock closed at \$2.20. As a result, she would have a margin surplus of...
- a) \$ 600
  - b) \$1,600
  - c) \$1,700
  - d) \$1,800
34. An investor wrote 100 put contracts. As a result, he has the...
- a) obligation to buy 100 shares
  - b) right to buy 100 shares
  - c) obligation to sell 10,000 shares
  - d) obligation to buy 10,000 shares
35. An acronym for the privately-owned computer networks that match orders for securities outside of recognized exchange facilities is...
- a) ATS
  - b) CUB
  - c) QTRS
  - d) IIROC
36. Which of the following parties might benefit from higher interest rates?
- a) A company that has borrowed money in the floating rate market.
  - b) A young married couple that is looking to purchase their first home.
  - c) A retiree with a pension that is *not* indexed to the CPI.
  - d) A government that has issued a great deal of long-term, fixed coupon debt.

37. All of the following are advantages of listing securities on a public stock exchange *except*...
- a) prestige and goodwill
  - b) additional disclosure requirements
  - c) market visibility
  - d) facilitates valuation for tax purposes
38. A company purchased an asset for \$10,000,000 with an estimated useful life of ten years and salvage value of \$1,000,000. If the company used the double-declining balance depreciation method, what would the asset's carrying value be after its second year of use?
- a) \$4,600,000
  - b) \$5,400,000
  - c) \$5,760,000
  - d) \$6,400,000
39. The graph depicting the term structure of interest rates is known as the...
- a) yield curve
  - b) bond market line
  - c) duration line
  - d) term extension/reduction curve
40. Which of the following bonds would be most volatile?
- a) 5 year GOC bond with a 5% coupon
  - b) 10 year GOC bond with a 5% coupon
  - c) 5 year GOC bond with a 10% coupon
  - d) 10 year GOC bond with a 10% coupon
41. Roger Dodger, investment advisor for FLI-BI-NITE Securities, gets a call from an angry client: "I'm sick of losing money on GOFER BROKE, Inc. I want to stop my losses right now... or at least limit my losses. Sell immediately!" Roger Dodger would place a(n)...
- a) at the market order
  - b) limit order
  - c) stop-loss order
  - d) all or none order
42. Which of the following is true with respect to margin accounts?
- a) Every investment firm allows margin accounts.
  - b) Obtaining a Margin Account Agreement Form is optional for the member firm.
  - c) Interest on the margin loan is calculated daily and charged monthly.
  - d) Margin refers to the amount the member firm provides.



43. When a call writer owns the underlying stock, they are known as...
- a) covered
  - b) naked
  - c) cash-secured
  - d) hedgers
44. Which of the following statements about bond market trading are you least likely to agree with?
- a) The sell side of fixed-income trading is the investment dealer side.
  - b) The buy side of fixed-income trading is the investment management side.
  - c) Inter-dealer brokers are participants in the retail bond market who bring retail investors together with institutional sellers.
  - d) The trade ticket, an electronic confirmation, contains information such as the identification of the bond, the price and often the yield, and the settlement date.
45. At the end of 2016, the CPI was 125.4. At the end of 2017, it was 128. Therefore, the inflation rate for that year was...
- a) 2.03%
  - b) 2.07%
  - c) 2.60%
  - d) 3.60%
46. The Phillips curve says that...
- a) when inflation is low, unemployment is low
  - b) when inflation is low, unemployment is high
  - c) when inflation increases, unemployment increases
  - d) Inflation and unemployment are not linked.
47. What is the first step in complying with the "Know Your Client" rule?
- a) having a lengthy interview with the client before any trade is accepted.
  - b) doing a background check on the client, verifying employment information and address.
  - c) completing a New Account Application Form.
  - d) learning the essential facts relative to every client and every order.
48. Capitalization leads to...
- a) lower profits and lower asset values.
  - b) lower profits and higher asset values.
  - c) higher profits and higher asset values.
  - d) higher profits and higher asset values.

49. Which of the following is not true of commercial paper?
- a) It can be an unsecured promissory note.
  - b) They tend to make monthly interest payments.
  - c) Issue terms range from three months to one year.
  - d) They generally offer a higher yield than Government of Canada T-bills.
50. The Spice Girls decide that they want to invest some of their money in the securities markets. Scary Spice buys preferred shares of GIRLPOWER Inc. Sporty Spice buys some first mortgage bonds issued by GIRLPOWER Inc. Baby Spice buys some GIRLPOWER Inc. common shares, and last but not least, Posh Spice buys some GIRLPOWER Inc. convertible debentures. If GIRLPOWER ever faced dissolution, in what order would the Spice Girls get paid off?
- a) Sporty, Scary, Posh, Baby
  - b) Sporty, Posh, Scary, Baby
  - c) Baby, Scary, Posh, Sporty
  - d) Sporty, Baby, Posh, Scary
51. A North American investor believed that political reforms in Japan will mean that its economy would outperform over the next decade. You would recommend that she invest in the...
- a) FTSE 100
  - b) CAC 40
  - c) DAX
  - d) Nikkei

Please use the following information for Questions #52 & #53.

A company has 30,000,000 authorized shares and 20,000,000 that are issued and outstanding. When the common shares (with a par value of \$1.00) are trading for \$10 in the marketplace, it announces a rights offering where each shareholder will receive one right for each share held, and four rights plus \$8.00 will entitle the shareholder to purchase one treasury share.

52. What is the value of one right during the cum-rights period?
- a) \$.40
  - b) \$.50
  - c) \$2.00
  - d) \$2.25
53. If the rights offering is fully subscribed, how many shares will be issued and outstanding?
- a) 20,000,000
  - b) 24,000,000
  - c) 25,000,000
  - d) 36,000,000

54. Mr. Singh has numerous accounts with TD Waterhouse which is a member of the IDA and whose accounts are CIPF protected. His Canadian margin account has a market value of \$750,000. His American option account has \$400,000. His RRSP account is worth \$1,100,000 and his in-trust account for his two children has \$250,000. How much protection does Mr. Singh have under CIPF rules?

- a) \$1,000,000
- b) \$2,250,000
- c) \$2,300,000
- d) \$2,500,000

55. You pull the following information from the Statscan website:

Canadian Population:	32,400,000
Working-Age Population:	25,800,000
Labour Force:	17,500,000
Employed:	16,400,000
Unemployed:	1,100,000

What is the participation rate?

- a) 50.7%
- b) 54.0%
- c) 63.4%
- d) 67.8%

56. XYZ Company was supposed to file its audited year-end results with the exchange on Friday June 9<sup>th</sup>. It failed to do so. As a result, the exchange would *likely* invoke a \_\_\_\_\_ on Monday June 12<sup>th</sup>.

- a) delayed opening
- b) halt in trading
- c) suspension of trading
- d) delisting

57. Deferred revenue results when a company...

- a) receives payment for goods or services that it has *not* yet provided.
- b) pays for goods or services that it has *not* yet received.
- c) sells a product for less than its cost of goods sold.
- d) sells a product for greater than its cost of goods sold.

58. An investor anticipates that over the years, inflation will erode the real buying power of her returns. To protect herself against this, she would be *most* likely to purchase what sort of GIC?

- a) index-linked GIC
- b) instalment GIC
- c) laddered GIC
- d) escalating-rate GIC

59. The higher the discount rate...
- a) the lower the present value of a bond.
  - b) the higher the present value of a bond.
  - c) the lower the future value of a bond.
  - d) the higher the future value of a bond.
60. You are sitting on a trading desk when a non-client order and a pro order arrive at your desk. They are competing for the same security at the same price. You would execute...
- a) the pro order first.
  - b) the client order first .
  - c) the order which is for the greatest number of shares.
  - d) the order which would generate the highest commission.
61. The people who construct the S&P/TSX Composite are *least* likely to be interested in...
- a) the company's trading volume.
  - b) the company's liquidity.
  - c) the company's current profitability.
  - d) the company's market capitalization.
62. A company IPO'd its common shares in May. During the month of June, an investor who participated in the IPO sold her shares to another investor. This is an example of trading on the...
- a) primary market
  - b) secondary market
  - c) auction market
  - d) dealer market
63. Which of the following type(s) of unemployment is/are tied directly to the fluctuations in the business cycle?
- a) cyclical unemployment only
  - b) cyclical and structural unemployment only
  - c) cyclical and frictional unemployment only
  - d) cyclical, structural and frictional unemployment

64. Ms. Li was called by her broker on Thursday May 11<sup>th</sup>. She was told about an IPO for TERRUS Common Shares and verbally agreed to buy 1,000 shares. The next morning, her broker mailed out the final prospectus. On Tuesday morning, May 16<sup>th</sup>, Ms. Li called her broker, asking to cancel her trade. Which of the following *best* describes her situation?
- a) She would *not* be allowed to cancel the transaction.
  - b) She would be allowed to cancel the transaction under the Right of Withdrawal.
  - c) She would be allowed to cancel the transaction under the Right of Rescission if there were a material misrepresentation in the prospectus.
  - d) She would *not* be allowed to cancel the transaction but she would be protected under the Right of Action for Damages.
65. A company buys back some of its outstanding shares in the course of the year. On the Cash Flow Statement, this transaction would be recorded under...
- a) Operating Activities
  - b) Financing Activities
  - c) Investing Activities
  - d) This transaction would not be recorded on the Cash Flow Statement.
66. A bond that was issued at 100 is currently priced at 96. If it has a duration of 8 and interest rates increase by 50 basis points, it will...
- a) fall in value to 88.32.
  - b) fall in value to 92.16.
  - c) increase in value to 99.84.
  - d) increase in value to 100.
67. According to Liquidity Preference Theory...
- a) the yield curve should always tend to be upward sloping.
  - b) the yield curve should always tend to be downward sloping.
  - c) the yield curve reflects supply and demand for various maturities.
  - d) an upward sloping yield curve means that the market expects interest rates to increase in the future.
68. An investor short-sold 2,000 shares of DEF Security at 21 and offset one month later at 19. If the security was eligible for reduced margin and a dividend of \$.25 per share was paid out over this period of time, her return on margin would be *closest to*...
- a) 16.7%
  - b) 19.1%
  - c) 27.8%
  - d) 31.8%

69. Which of the following is *not* true of the Dow Jones Industrial Average?
- a) It is price-weighted.
  - b) It is comprised of 30 blue-chip stocks.
  - c) It has a lower risk profile than the overall market.
  - d) It has historically had a higher return than the overall market.
70. Which of the following securities is/are issued by companies to raise investment capital?
- i) Rights
  - ii) Warrants
  - iii) Options
- a) i) only
  - b) ii) only
  - c) i) & ii) only
  - d) i), ii) & iii)
71. Which of the following are self-regulatory organizations (SROs) in the Canadian Financial Services Industry?
- i) OSFI
  - ii) MFDA
  - iii) IIROC
- a) i) only
  - b) i) & ii) only
  - c) ii) & iii) only
  - d) i), ii) & iii)
72. In order to calculate the participation rate, you must know...
- a) the labour force and total population.
  - b) the labour force and working age population.
  - c) the number of unemployed and the number of employed.
  - d) the number of unemployed and working age population.
73. What process does a central clearing system use to establish and confirm a credit or debit position balance?
- a) netting
  - b) settlement
  - c) reconciliation
  - d) clearing and deposit

74. The auditor is responsible for...
- a) preparing the financial statements for a publicly traded company.
  - b) preparing the financial statements for a publicly traded company and reporting the results to shareholders.
  - c) representing the Board of Directors and reporting to them annually on the company's financial statements.
  - d) representing the shareholders and reporting to them annually on the company's financial statements.
75. A Canadian company issued a bond in Germany denominated in US dollar. This is an example of a...
- a) foreign bond.
  - b) foreign-pay bond.
  - c) Eurobond (Eurodollar).
  - d) Eurobond (EuroCanadian).
76. A 5% bond was issued at par and is currently trading at 90. It has ten years to maturity. Its current yield is...
- a) 5.0%
  - b) 5.6%
  - c) 6.3%
  - d) Insufficient information.
77. All of the following are hazards and difficulties of short selling *except*...
- a) there can be difficulties in borrowing a sufficient quantity of the security.
  - b) there is the theoretical possibility of unlimited losses if the shorted security rises dramatically in price.
  - c) the short seller is liable for any dividends paid while the security is short.
  - d) short sellers could be responsible for depositing additional margin if the security declines sharply in value.
78. When the market is at a low...
- a) P/E multiples are low and dividend yields are low.
  - b) P/E multiples are high and dividend yields are low.
  - c) P/E multiples are low and dividend yields are high.
  - d) P/E multiples are high and dividend yields are high.
79. Which of the following options has the most intrinsic value?
- a) A \$40 call purchased for \$10 when the underlying is \$44.
  - b) A \$30 call purchased for \$1 when the underlying security is 33.
  - c) A \$50 put purchased for \$2 when the underlying is \$60.
  - d) A \$100 put purchased for \$5 when the underlying is \$95.

80. CIPF protects investors against...
- a) losses due to the financial failure of any firm in the self-regulatory organization.
  - b) losses due to market volatility.
  - c) losses due to incompetent financial advisors.
  - d) losses due to rising interest rates.
81. Canada currently has a surplus in its Current Account with the United States. As a result, it must have...
- a) a matching surplus in its Capital Account.
  - b) a matching deficit in its Capital Account.
  - c) a matching surplus in its Balance of Payments.
  - d) a matching deficit in its Balance of Payments.
82. Robert Gordon is CEO of ABC Company. Knowing that there will be disappointing earnings based on material non-public information, he wants to sell 200,000 of his 300,000 shares. In order to comply with regulations he must...
- a) ask the securities commission permission to sell his shares.
  - b) inform the securities commission 5 days in advance of his trade.
  - c) tell the securities commission within 10 days after effecting the trade.
  - d) Under these circumstances, Robert Gordon would *not* be allowed to sell his shares.
83. Generally Accepted Accounting Principles (GAAP) rules...
- a) provide for flexibility for companies to choose among accounting standards that best reflect their operations.
  - b) provide for flexibility for companies to choose among accounting standards that allow them to report the highest profit.
  - c) provide for flexibility for companies to choose among accounting standards that require them to report the lowest profit.
  - d) do *not* provide for any flexibility for companies.
84. All of the following are important bond rating services in Canada *except*...
- a) Dominion Bond Rating Service.
  - b) Moody's Canada Inc.
  - c) Standard & Poor's Bond Rating Service.
  - d) Dow Jones Bond Rating Service.



85. An investor owned a \$200,000 face value bond with a 5% coupon, maturing October 20<sup>th</sup> 2015. He sold the bond to an investor on June 12<sup>th</sup> at a price of 90, with the trading settling June 15<sup>th</sup>. What is the accrued interest that the buyer of the bond would owe the seller of the bond?
- a) \$1,306.98
  - b) \$1,380.96
  - c) \$1,452.20
  - d) \$1,534.25
86. An investor purchases an equity security on Wednesday June 14<sup>th</sup>. The trade would settle...
- a) Wednesday June 14<sup>th</sup>
  - b) Thursday June 15<sup>th</sup>
  - c) Friday June 16<sup>th</sup>
  - d) Monday June 19<sup>th</sup>
87. All of the following are true with respect to convertible preferred shares *except*...
- a) they provide a two-way security.
  - b) they usually provide a higher yield than the underlying common shares.
  - c) they usually provide a higher yield than straight preferred shares.
  - d) they are vulnerable to a decline in price if they are selling off the stock and the price of the common stock declines.
88. The Bank Rate is the...
- a) minimum rate at which the Bank of Canada will lend money to the Chartered Banks.
  - b) maximum rate at which the Bank of Canada will lend money to the Chartered Banks.
  - c) minimum rate at which the Chartered Banks will lend money to other Chartered Banks.
  - d) minimum rate at which the Chartered Banks will lend money to their most creditworthy customers.
89. The retractable feature on a bond is...
- a) favourable to the investor, particularly when interest rates have gone up.
  - b) favourable to the investor, particularly when interest rates have gone down.
  - c) favourable to the issuing company, particularly when interest rates have gone up.
  - d) favourable to the issuing company, particularly when interest rates have gone down.

90. An investor who short-sold a security and is concerned about limiting her losses in case of an adverse price move in the security would place a...
- a) limit order
  - b) at the market order
  - c) stop-loss order
  - d) stop-buy order
91. The Bank of Canada uses \_\_\_\_\_ to offset undesired downward pressure on overnight financing costs.
- a) SPRAs
  - b) SRAs
  - c) CPAs
  - d) LVTS
92. In order to profit from falling interest rates, an investor should seek bonds with...
- a) short-term to maturity.
  - b) low duration.
  - c) high duration.
  - d) high coupon rates.
93. The "Sacrifice Ratio" measures...
- a) how much GDP must fall to reduce inflation.
  - b) how much GDP must go up to reduce unemployment.
  - c) how much inflation must increase to reduce unemployment.
  - d) how much the exchange rate must fall to increase exports.
94. If the nominal rate of interest is 6.0% and the inflation rate is 2%, then...
- a) the real interest rate is -4.0%.
  - b) the real interest rate is 3.0%.
  - c) the real interest rate is 4.0%.
  - d) the real interest rate is 8.0%.
95. Which is not *one* of the three categories of firms in the Canadian financial services system?
- a) Retail
  - b) Integrated
  - c) Wholesale
  - d) Institutional

96. Which of the following is *not* one of the four main areas of responsibility for the Bank of Canada?
- a) Monetary policy
  - b) Physical currency
  - c) Funds management
  - d) Balancing federal budgets
97. In Canada, the regulation of the securities industry is a...
- a) provincial responsibility.
  - b) federal responsibility.
  - c) shared responsibility between the provincial and federal governments.
  - d) The securities industry in Canada is *not* regulated by government.
98. Generally speaking...
- a) Schedule II banks focus on retail banking and Schedule III banks focus on corporate and institutional finance.
  - b) Schedule II banks focus on corporate and institutional finance and Schedule III banks focus on retail banking.
  - c) Both Schedule II and Schedule III banks focus on corporate and institutional business and investment banking.
  - d) Both Schedule II and Schedule III banks focus on retail banking.
99. The ownership threshold for a takeover bid in Canada is...
- a) 10%.
  - b) 20%.
  - c) 50%.
  - d) 100%.
100. Which of the following would tend to lead to an appreciation of the Canadian dollar vis-à-vis the American dollar?
- a) Inflation is higher in Canada.
  - b) Commodity prices are strong.
  - c) Canada is running a deficit in its current account.
  - d) Canada is running large federal and provincial budget deficits.

## CSC ONE FINAL EXAMINATION – ANSWERS

1.C	2.A	3.D	4.C	5.D	6.B	7.A	8.C	9.C	10.B
11.A	12.C	13.A	14.C	15.C	16.D	17.C	18.C	19.C	20.D
21.A	22.C	23.B	24.C	25.A	26.A	27.B	28.D	29.D	30.D
31.A	32.C	33.C	34.D	35.A	36.D	37.B	38.D	39.A	40.B
41.A	42.C	43.A	44.C	45.B	46.B	47.C	48.D	49.B	50.B
51.D	52.A	53.C	54.B	55.D	56.C	57.A	58.D	59.A	60.B
61.C	62.B	63.A	64.B	65.B	66.B	67.A	68.C	69.D	70.C
71.C	72.B	73.A	74.D	75.C	76.B	77.D	78.C	79.D	80.A
81.B	82.D	83.A	84.D	85.D	86.C	87.C	88.A	89.A	90.D
91.B	92.C	93.A	94.C	95.C	96.D	97.A	98.A	99.B	100.B