

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 NGX Canada provides electronic trading to the North American natural gas and electricity markets.
 - d) The TSX Venture Exchange trades junior securities, income trusts and exchange-traded funds.
11. In Ontario, trades in unlisted securities and unquoted securities are reported through the web-based system of the...
- a) Canadian 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 – 10/11.
- 13.A 3 – 3.
- 14.D 3 – 4/5.
- 15.C 3 – 6.
- 16.C 3 – 6.
- 17.B 3 – 9.
- 18.B 3 – 10.
- 19.A 3 – 11.
- 20.D 3 – 12.
- 21.A 3 – 12.
- 22.D 3 – 12.
- 23.B 3 – 13.
- 24.D 3 – 14.
- 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 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 trades all financial and equity futures and options listed in Canada?
- a) NEO Exchange
 - b) ICE NGX Canada
 - c) Montreal Exchange
 - d) TSX Alpha 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 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 – 12.
- 8.A 1 – 13.
- 9.D 2 – 3.
- 10.C 2 – 6.
- 11.D 2 – 7.
- 12.C 2 – 8.
- 13.C 2 – 8/9.
- 14.B 2 – 9.
- 15.D 2 – 10/11.
- 16.D 2 – 11.
- 17.C 3 – 5.
- 18.A 3 – 6.
- 19.D 3 – 9.
- 20.D 3 – 10.
- 21.D 3 – 11.
- 22.D 3 – 13.
- 23.C 3 – 13.
- 24.B 3 – 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 2017, the CPI stood at 110. At the end of 2018, 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 – 4.
- 2.D 4 – 8.
- 3.D 4 – 8.
- 4.A 4 – 10/12.
- 5.A 4 – 12/13.
- 6.D 4 – 12/13.
- 7.D 4 – 13.
- 8.A 4 – 14.
- 9.B 4 – 17.
- 10.C 4 – 17.
- 11.A 4 – 17/18.
- 12.A 4 – 19.
- 13.C 4 – 20/21.
- 14.A 4 – 20/21.
 $(115 - 110)/110 = 4.6\%$
- 15.B 4 – 23.
- 16.D 4 – 23.
- 17.C 4 – 24.
- 18.C 4 – 24.
- 19.B 4 – 24/26.
- 20.A 4 – 24/26.
- 21.C 5 – 7.
- 22.B 5 – 9.
- 23.B 5 – 9/10.
- 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 – 8.
- 3.D 4 – 8.
- 4.B 4 – 8.
- 5.D 4 – 10/12.
- 6.A 4 – 12.
- 7.D 4 – 14.
- 8.C 4 – 14/15.
- 9.C 4 – 17.
- 10.D 4 – 19.
- 11.B 4 – 20.
- 12.C 4 – 20.
- 13.C 4 – 23.
- 14.B 4 – 23.
- 15.B 4 – 23.
- 16.C 4 – 24.
- 17.A 4 – 24/25.
- 18.C 4 – 26.
- 19.A 5 – 3/4.
- 20.C 5 – 3/4.
- 21.D 5 – 7.
- 22.A 5 – 9.
- 23.C 5 – 9/10.
- 24.C 5 – 11.
- 25.D 5 – 13.

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 15th, 2030. When it was trading at 98, he sold it. If the trade settles on June 24th, 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 – 9/12.
- 6.B 6 – 10/12.
- 7.A 6 – 14.
- 8.B 6 – 14/15.
- 9.C 6 – 15.
- 10.D 6 – 18.
- 11.A 6 – 19/20.
- 12.D 6 – 21.
- 13.A 6 – 21.
- 14.A 7 – 4.
- 15.C 7 – 5/8.
 $\$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.

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 obligated 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 2007, BCE issued a 20-year bond. Which of the following statements is true as of November 2020?
 - 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, 2028. It was sold at a price of 99 on Tuesday October 30th, 2020. 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.A 6 – 7.
- 3.D 6 – 8.
- 4.C 6 – 9/10.
- 5.B 6 – 12/13.
- 6.A 6 – 9/11.
- 7.C 6 – 11.
- 8.C 6 – 13.
- 9.A 6 – 14.
- 10.B 6 – 14.
- 11.B 6 – 15.
Value of bond grows by 1% to \$101,000. 3% of that is the interest income received.
- 12.B 6 – 16.
- 13.A 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 15th in a cash account. On what date would she be required to make full payment for this purchase?
- a) Friday July 15th
 - b) Monday July 18th
 - c) Tuesday July 19th
 - d) Wednesday July 20th
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
 - d) 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 – 10/13.

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 = $\$2 \times 1,000 \text{ shares} = \$2,000.$
- 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 – 16/19.

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 10th and convinced to purchase an IPO issued under full prospectus requirements. On Tuesday April 11th, 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. What clause permits an underwriter to cancel an offering without penalty, provided certain conditions are met?
- a) Market out clause
 - b) Cancellation clause
 - c) Penalty-free cancellation clause
 - d) There is no clause that allows an underwriter to cancel an offering without penalty.
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 billion
- 20.D 12 – 8.
- 21.C 12 – 9.
- 22.B 12 – 13.
- 23.A 12 – 15.
- 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 – 25/26.
- 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.