

Canadian Securities Course (CSC) Level 1 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What are the three ways to measure GDP?**
 - A. The expenditure approach, the income approach, and the production approach.**
 - B. The income approach, the expenditure approach, and the savings approach.**
 - C. The production approach, the investment approach, and the trade approach.**
 - D. The consumption approach, the imports approach, and the exports approach.**
- 2. At which types of businesses does seasonal unemployment typically apply?**
 - A. Retail stores**
 - B. Restaurants**
 - C. Construction companies**
 - D. Farms**
- 3. Why do client orders have priority over non-client orders?**
 - A. Non-client orders have a higher commission rate.**
 - B. Client orders are more profitable for the broker.**
 - C. Non-client orders involve more regulatory paperwork.**
 - D. Non-clients may include individuals with direct interests in the dealer member.**
- 4. Which of the following is not considered one of the determinants of interest rates?**
 - A. Demand and supply of money**
 - B. Default risk**
 - C. Central bank credibility**
 - D. Foreign demand for bonds**

- 5. What is the formula for the IV of a right during the ex-rights period?**
- A. $(\text{Stock price} - \text{Subscription price}) / (\text{Number of rights to buy 1 share})$**
 - B. $(\text{Number of rights to buy 1 share} + 1) / (\text{Stock price} - \text{Subscription price})$**
 - C. $(\text{Stock price} + \text{Subscription price}) / \text{Number of rights to buy 1 share}$**
 - D. $(\text{Subscription price} - \text{Stock price}) / (\text{Number of rights to buy 1 share} + 1)$**
- 6. What are the 3 margin risks?**
- A. Market risk, deferred interest, stock redemption**
 - B. Market volatility, increased commissions, dividend premium**
 - C. Increased market risk, loan repayment, margin calls**
 - D. Insufficient funds, price volatility, market crashes**
- 7. What is the National do not call list?**
- A. A list of preferred clients for telemarketers**
 - B. A registry of numbers ineligible for telemarketing calls**
 - C. A list of approved marketing strategies**
 - D. A compilation of call center numbers**
- 8. What are the main differences between a sole proprietorship and a partnership?**
- A. In sole props, only 1 person runs the business and is responsible for all the liabilities.**
 - B. In a partnership, only 1 person runs the business and is responsible for all the liabilities.**
 - C. In a partnership, there is no difference between the business's assets and the person's assets.**
 - D. In a partnership, two or more people run the business.**
- 9. What is a guaranteed bond?**
- A. A bond secured against tangible assets**
 - B. An insured bond**
 - C. A bond with repayment ensured by the government**
 - D. A bond with fixed coupon payments**

10. What is a Treasury Bill primarily characterized by?

- A. High-interest payments**
- B. No maturity date**
- C. Sold at a discount and mature to par value**
- D. Paying dividends**

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Answers

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1. A
2. D
3. D
4. B
5. A
6. C
7. B
8. A
9. C
10. C

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Explanations

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1. What are the three ways to measure GDP?

- A. The expenditure approach, the income approach, and the production approach.**
- B. The income approach, the expenditure approach, and the savings approach.**
- C. The production approach, the investment approach, and the trade approach.**
- D. The consumption approach, the imports approach, and the exports approach.**

The correct answer highlights the three primary methods for measuring Gross Domestic Product (GDP), which are the expenditure approach, the income approach, and the production approach. The expenditure approach calculates GDP by adding up all expenditures made in an economy, which include consumption, investment, government spending, and net exports (exports minus imports). This method provides insight into how much is being spent in the economy, reflecting overall economic activity. The income approach, on the other hand, measures GDP by summing all incomes earned in the production of goods and services, including wages, profits, rents, and taxes minus subsidies. This approach illustrates how much income is generated by economic activities, showcasing the distribution of earnings among different factors of production. The production approach, also known as the value-added approach, measures GDP by calculating the value added at each stage of production for all goods and services produced in the economy. This method emphasizes the actual output created within the economy, consolidating data from various sectors to arrive at the total value of goods and services. The other options do not accurately describe the established methods for measuring GDP. For instance, the savings approach, investment approach, and specific import or export approaches are not recognized as standard methods for measuring GDP. Understanding these correct measures is

2. At which types of businesses does seasonal unemployment typically apply?

- A. Retail stores**
- B. Restaurants**
- C. Construction companies**
- D. Farms**

Seasonal unemployment is a phenomenon that occurs when individuals are employed during specific seasons of the year and face unemployment during off-seasons. This is particularly relevant in industries that experience fluctuations in demand based on seasons. Farms are the quintessential example of this, as agricultural work often depends heavily on specific planting and harvesting seasons. During the peak growing season, farms hire additional labor to manage the heightened activity, but once the harvest is complete, many of these workers may find themselves unemployed until the next season of planting or harvesting begins. In contrast, retail stores can experience peak seasons, such as the holiday shopping period, but they typically maintain staff year-round, albeit with changes in hours or roles. Restaurants, while they might see fluctuations in customers based on seasons or events, often have a continuous need for staff. Construction companies may also face variations in work due to weather conditions but do not strictly experience seasonal unemployment in the same way farms do, as construction projects can vary greatly in timing and scope based on contracts and demand. Thus, farms best exemplify seasonal unemployment as their workforce is directly tied to distinct agricultural cycles.

3. Why do client orders have priority over non-client orders?

- A. Non-client orders have a higher commission rate.
- B. Client orders are more profitable for the broker.
- C. Non-client orders involve more regulatory paperwork.
- D. Non-clients may include individuals with direct interests in the dealer member.**

Client orders take priority over non-client orders primarily because prioritizing client interests helps to maintain trust and integrity within the financial markets. Client orders represent the interests of individual investors who rely on their brokers to execute trades on their behalf fairly and transparently. This prioritization safeguards the interests of clients and is essential for maintaining a strong fiduciary duty that brokers and dealers have towards their clients. Furthermore, non-client orders can include individuals or entities with direct interests or ties to the dealer, which may create potential conflicts of interest or perceptions of favoritism. By prioritizing client orders, the market fosters confidence in the fairness of trade execution for all participants, reinforcing the overall health of the financial system. Other options do not provide a compelling rationale for prioritizing client orders. For instance, the idea that non-client orders involve higher commission rates or more regulatory paperwork does not directly affect the ethical imperative of prioritizing client interests. Similarly, while non-client orders may potentially be more profitable for brokers, this consideration should not outweigh the fundamental principle of fairness owed to clients. In essence, prioritizing client orders is crucial for maintaining credibility and trust in the financial markets.

4. Which of the following is not considered one of the determinants of interest rates?

- A. Demand and supply of money
- B. Default risk**
- C. Central bank credibility
- D. Foreign demand for bonds

The correct answer is the option related to default risk, as this is not considered a primary determinant of interest rates in the broader economic context. Interest rates are primarily influenced by macroeconomic factors such as the demand and supply of money, which establishes the base currency rate in the market; central bank credibility, which affects public and investor confidence in monetary policy and thus influences borrowing costs; and foreign demand for bonds, as international investors impact domestic interest rates through their purchasing activities. While default risk is an important factor in determining the specific yield on particular bonds or loans, it does not broadly affect interest rates across the market in the way that the other factors do. Hence, it's relevant to individual securities but not fundamental to the overall interest rate levels.

5. What is the formula for the IV of a right during the ex-rights period?

- A. (Stock price - Subscription price) / (Number of rights to buy 1 share)**
- B. (Number of rights to buy 1 share +1) / (Stock price - Subscription price)**
- C. (Stock price + Subscription price) / Number of rights to buy 1 share**
- D. (Subscription price - Stock price) / (Number of rights to buy 1 share +1)**

The formula for the intrinsic value (IV) of a right during the ex-rights period is derived from the financial principles surrounding rights offerings. In a rights offering, existing shareholders are given the opportunity to purchase additional shares at a specified subscription price, typically lower than the current market price. The intrinsic value of a right essentially reflects its potential benefit to the shareholder: the difference between the current market price of the stock and the subscription price, adjusted for how many rights are required to purchase one new share. So, using the formula where you subtract the subscription price from the stock price and divide that result by the number of rights required to buy one share effectively allows us to quantify the financial benefit of exercising the right. This indicates how much value an individual right holds. This approach properly accounts for the relationship between the market price, the price at which shares can be purchased through rights, and the supply of rights that enables the new shares to be acquired. It highlights the mechanics of rights offerings as a means of raising capital while offering value to existing shareholders. In contrast, the other choices involve incorrect calculations or improper interpretations of the rights' value and do not align with the traditional method of evaluating options in the context of rights offerings.

6. What are the 3 margin risks?

- A. Market risk, deferred interest, stock redemption**
- B. Market volatility, increased commissions, dividend premium**
- C. Increased market risk, loan repayment, margin calls**
- D. Insufficient funds, price volatility, market crashes**

The correct answer identifies three significant risks associated with margin trading: increased market risk, loan repayment, and margin calls. Increased market risk is relevant because when trading on margin, investors are often exposed to greater fluctuations in the value of their investments. A small decline in the value of the stock can lead to a disproportionately larger loss relative to their equity since the investor has borrowed funds to finance their trade. Loan repayment is also a crucial aspect of margin trading. When funds are borrowed, there is an obligation to repay those loans, which can become problematic if the value of the investment decreases significantly or if the investor's financial situation changes. Margin calls occur when the value of the securities in a margin account falls below a certain threshold. The brokerage firm may require the investor to deposit additional funds or sell some of their holdings to bring the account back to the required level, which can lead to forced selling at disadvantageous prices. These elements underscore the risks involved in trading on margin, differentiating them from factors like dividend premiums or increased commission costs, which do not directly relate to the inherent risks of margin trading itself.

7. What is the National do not call list?

- A. A list of preferred clients for telemarketers
- B. A registry of numbers ineligible for telemarketing calls**
- C. A list of approved marketing strategies
- D. A compilation of call center numbers

The National Do Not Call List is a registry established in Canada to give consumers the option to limit the telemarketing calls they receive. By registering their phone numbers on this list, individuals express their preference not to be contacted by telemarketers. This initiative aims to protect consumers from unwanted and intrusive marketing practices. Essentially, the purpose of the National Do Not Call List aligns with consumer rights and privacy protection. It provides a straightforward way for individuals to opt-out of receiving telemarketing calls from most organizations. Businesses are required to consult this list before making telemarketing calls, helping to ensure compliance with regulations designed to respect consumer privacy. The other options do not accurately describe the National Do Not Call List. A preferred clients list would imply a designation for individuals who want to receive calls, while approved marketing strategies and call center numbers do not pertain to consumer preferences around telemarketing communications.

8. What are the main differences between a sole proprietorship and a partnership?

- A. In sole props, only 1 person runs the business and is responsible for all the liabilities.**
- B. In a partnership, only 1 person runs the business and is responsible for all the liabilities.
- C. In a partnership, there is no difference between the business's assets and the person's assets.
- D. In a partnership, two or more people run the business.

The correct answer identifies a key characteristic of a sole proprietorship: it is owned and operated by one individual who bears full responsibility for the business's liabilities. This means that the owner's personal assets are potentially at risk if the business incurs debts or legal issues. In contrast, a partnership involves two or more individuals who share the responsibilities of running the business. This fundamental difference in ownership structure is important because it impacts liability and decision-making. In a partnership, liability can be shared among partners, though specific terms can vary based on the partnership agreement and whether it is a general partnership or a limited partnership. While the other choices do present aspects related to partnerships and sole proprietorships, they either misrepresent the nature of partnerships or blend characteristics from both business structures inaccurately. For example, partners typically share management and liability, which is not accurately conveyed in those options. Understanding these distinctions is critical for anyone studying business structures within the Canadian Securities context, as they affect various factors including taxation, personal liability, and operational control.

9. What is a guaranteed bond?

- A. A bond secured against tangible assets
- B. An insured bond
- C. A bond with repayment ensured by the government**
- D. A bond with fixed coupon payments

A guaranteed bond often refers to a bond for which the repayment of principal and interest is assured by a third party, typically a government entity or a highly-rated institution. This guarantee provides investors with heightened security, as it means that in the event of default by the issuer, the guarantor is responsible for making payments. The nature of this bond makes it an attractive investment for risk-averse individuals or institutions looking for predictable returns and lower credit risk. In many cases, government-backed securities are seen as some of the safest investments available, which is why the guarantee provided by the government is a significant characteristic of these types of bonds. Other options do not align with this definition of a guaranteed bond: a bond secured against tangible assets refers to asset-backed securities, an insured bond implies that an insurance company is backing the bond but doesn't specify the government, and a bond with fixed coupon payments only describes the payment structure of the bond, not its guarantee status.

10. What is a Treasury Bill primarily characterized by?

- A. High-interest payments
- B. No maturity date
- C. Sold at a discount and mature to par value**
- D. Paying dividends

A Treasury Bill (T-bill) is primarily characterized by being sold at a discount and maturing to par value. This means that when investors purchase T-bills, they do so for an amount less than their face value. Upon maturity, the government repays the full face value to the holder. This discount represents the interest income for the investor, with the difference between the purchase price and the par value indicating the return on the investment. T-bills have a specific, short-term maturity and do not pay interest or dividends, which further underscores why being sold at a discount and maturing to par value is a definitive characteristic of these instruments. They are considered one of the safest forms of investments, given they are backed by the government, and the return is locked in at the time of purchase due to the difference between the purchase price and the par value at maturity.