Canadian Securities Course (CSC) Practice Exam (Sample)

Study Guide

Everything you need from our exam experts!

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Questions

1. **What do authorized shares represent for a corporation according to the corporate charter?**
   - A. Shares that have been bought back by the company
   - B. Shares outstanding in the market at a given time
   - C. The maximum number of shares a corporation can issue
   - D. Shares purchased by authorized dealers

2. **Which entity is responsible for compliance, accounting, audits, and legal functions in financial firms?**
   - A. Back office
   - B. Integrated firms
   - C. Schedule I banks
   - D. Middle office

3. **When does a bond sell at a discount?**
   - A. If the bond price is $1000
   - B. Yield to maturity is equal to the coupon rate
   - C. When current yield is high
   - D. When YTM is greater than coupon rate

4. **What is mark-to-market accounting?**
   - A. An accounting method based on historical costs
   - B. A practice of valuing assets at their market price
   - C. A method of assessing potential investments
   - D. A strategy to lower tax liabilities

5. **When GDP returns to its previous peak, what typically happens to investment and inflation?**
   - A. Increase
   - B. Decrease
   - C. Remain unchanged
   - D. Cannot be determined

6. Which account includes the exchange of goods between Canadians and foreigners, earnings from individual income, dividends, and transfers for foreign aid?

- **A. Capital and financial account**
- **B. Current account**
- **C. Natural unemployment rate**
- **D. Exchange rates**

7. What advantages are associated with common shares?

- **A. Potential for high interest rates**
- **B. Guaranteed dividends**
- **C. Fixed return**
- **D. Potential for capital appreciation, dividends, voting rights, limited liability, and marketability**

8. Which type of firms cater to individuals and offer both full service and discount brokerage services?

- **A. Front office**
- **B. Integrated firms**
- **C. Retail firms**
- **D. Schedule II banks**

9. What is a convertible bond?

- **A. a bond with an option allowing the bondholder to exchange the bond for a specified number of shares of common stock in the firm.**
- **B. a protective provision written into the trust indenture of a company's debenture issue.**
- **C. sums of money set aside out of earnings each year to provide for the repayment of all or part of a debt issue at maturity.**
- **D. Government of Canada bonds that mature in 3-month, 6-month, or 12-month maturities.**

10. What does the "Greenshoe option" provide for underwriters in an IPO?

- **A. The ability to issue more of the underlying firm's stock**
- **B. The right to reject the firm's stock**
- **C. The opportunity to buy back the firm's stock**
- **D. The option to sell the firm's stock at a higher price**

Answers

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

Explanations

1. **What do authorized shares represent for a corporation according to the corporate charter?**

   A. Shares that have been bought back by the company

   B. Shares outstanding in the market at a given time

   C. The maximum number of shares a corporation can issue

   D. Shares purchased by authorized dealers

Authorized shares represent the maximum number of shares that a corporation is allowed to issue according to its corporate charter. Option A is incorrect because shares bought back by the company would be considered treasury stock, not authorized shares. Option B is incorrect because it refers to the current number of shares in the market, not the maximum allowed. Option D is incorrect because it refers to the purchase of shares by authorized dealers, not the maximum number of shares the corporation can issue.

2. **Which entity is responsible for compliance, accounting, audits, and legal functions in financial firms?**

   A. Back office

   B. Integrated firms

   C. Schedule I banks

   D. Middle office

The middle office is responsible for compliance, accounting, audits, and legal functions in financial firms. The back office mainly handles administrative and support tasks, while integrated firms refer to companies that offer both investment banking and commercial banking services. Schedule I banks are regulated by the government and have a higher capital adequacy requirement compared to other banks in Canada. Therefore, the middle office is the entity that is responsible for the mentioned functions in financial firms.

3. **When does a bond sell at a discount?**

   A. If the bond price is $1000

   B. Yield to maturity is equal to the coupon rate

   C. When current yield is high

   D. When YTM is greater than coupon rate

When a bond's yield to maturity (YTM) is greater than its coupon rate, it will sell at a discount. This is because investors are essentially paying less than the face value for the bond, since they will receive lower coupon payments. Options A, B and C are incorrect because they do not accurately describe when a bond sells at a discount. Option A is incorrect because the bond's price does not determine whether it sells at a discount. Option B is incorrect because the YTM and coupon rate are not equal, causing the bond to sell at a premium. Option C is incorrect because the current yield alone does not determine whether a bond sells at a discount.

4. What is mark-to-market accounting?

A. An accounting method based on historical costs

B. A practice of valuing assets at their market price

C. A method of assessing potential investments

D. A strategy to lower tax liabilities

Mark-to-market accounting is fundamentally a method used to value assets and liabilities based on current market prices rather than historical cost. This practice ensures that the financial statements reflect the true economic value of assets at a given point in time, capturing fluctuations in market conditions. By using market prices, this method provides more relevant and transparent information for investors and stakeholders, allowing them to assess the current financial position of a company more accurately. This approach is widely used in situations where the market values of assets and liabilities can change frequently, such as in the case of financial instruments like stocks and bonds. As market prices fluctuate, so do the values reported on the balance sheet, which can impact reported earnings and financial health assessments. In contrast, methods based on historical costs lack this timeliness and relevance, as they do not account for current market conditions. Additionally, assessing potential investments usually involves various analyses and does not specifically pertain to mark-to-market accounting, while strategies to lower tax liabilities relate to tax accounting rather than the valuation of assets.

5. When GDP returns to its previous peak, what typically happens to investment and inflation?

A. Increase

B. Decrease

C. Remain unchanged

D. Cannot be determined

When GDP returns to its previous peak, investment and inflation typically increase. It means that the economy is growing and businesses are confident in their future prospects, leading them to invest more. This increase in investment can also lead to an increase in consumer spending, further boosting economic growth and potentially causing inflation. Additionally, rising GDP can indicate increased demand for goods and services, which can also drive up inflation. It is difficult to determine how much investment or inflation may increase without more specific information about the current economic situation. Option B is incorrect because when GDP is increasing, it usually leads to higher investment and inflation. Option C is also incorrect because a return to previous peak GDP usually leads to changes in investment and inflation. Option D is incorrect because it is possible to determine the likely increase in investment and inflation based on historical patterns and current economic conditions.

6. Which account includes the exchange of goods between Canadians and foreigners, earnings from individual income, dividends, and transfers for foreign aid?

A. Capital and financial account

B. Current account

C. Natural unemployment rate

D. Exchange rates

The current account includes all financial transactions between a country and other nations, including goods and services, income earned by individuals, and transfer payments for foreign aid. The capital and financial account, while related, specifically refers to the transfer of financial assets such as stocks and bonds. The natural unemployment rate and exchange rates have more to do with a country's economy as a whole rather than specific financial transactions.

7. What advantages are associated with common shares?

A. Potential for high interest rates

B. Guaranteed dividends

C. Fixed return

D. Potential for capital appreciation, dividends, voting rights, limited liability, and marketability

Common shares offer multiple advantages, including potential for capital appreciation, dividends, voting rights, limited liability, and marketability. This means that investors can potentially see their investment grow in value over time, receive a portion of the company's profits as dividends, have a say in important company decisions through voting rights, and have limited liability for any losses the company may experience. In contrast, options A, B, and C do not accurately describe the potential advantages of common shares. Option A mentions "high interest rates," which are typically associated with fixed income investments such as bonds, not common shares. Option B suggests that dividends are guaranteed, which is not always the case for common shares as they are dependent on the company's profitability and decision to issue dividends. Option C mentions a "fixed return," which is not an inherent characteristic of common shares as their value can fluctuate.

8. Which type of firms cater to individuals and offer both full service and discount brokerage services?

A. Front office

B. Integrated firms

C. Retail firms

D. Schedule II banks

Retail firms cater to individuals and offer both full service and discount brokerage services. Front office is a general term that refers to customer-facing areas in an organization, but it is not specific to the brokerage industry. Integrated firms may offer more than just brokerage services and may not focus solely on catering to individuals. Schedule II banks are accredited financial institutions that are authorized to hold and invest funds for clients, but they do not necessarily offer full service and discount brokerage services like retail firms do.

9. What is a convertible bond?

- **A. a bond with an option allowing the bondholder to exchange the bond for a specified number of shares of common stock in the firm.**
- **B. a protective provision written into the trust indenture of a company's debenture issue.**
- **C. sums of money set aside out of earnings each year to provide for the repayment of all or part of a debt issue at maturity.**
- **D. Government of Canada bonds that mature in 3-month, 6-month, or 12-month maturities.**

A convertible bond is a financial instrument that combines the features of a bond and a stock option. This means that the bondholder has the option to exchange or convert the bond into a specified number of common shares in the issuing company. This option provides the potential for increased returns if the company's stock price rises. Option B is incorrect because a protective provision is a term in a bond agreement that outlines certain conditions that must be met in order to protect bondholders' interests. Option C is incorrect because this description refers to a sinking fund, which is a way for companies to set aside funds over time for repaying bond debts. Option D is incorrect because it describes a specific type of government bond issued by the Government of Canada with different maturity options, which is different from a convertible bond.

10. What does the "Greenshoe option" provide for underwriters in an IPO?

- **A. The ability to issue more of the underlying firm's stock**
- **B. The right to reject the firm's stock**
- **C. The opportunity to buy back the firm's stock**
- **D. The option to sell the firm's stock at a higher price**

The "Greenshoe option" allows underwriters in an IPO to issue more of the underlying firm's stock. This is usually done in response to high demand for the stock, providing the underwriters with the flexibility to meet that demand and potentially increase their profits. Option B, the right to reject the firm's stock, is incorrect as the underwriters are responsible for selling the stock and have a vested interest in its success. Option C, the opportunity to buy back the firm's stock, is incorrect as the option is for issuing more stock, not buying it back. Option D, the option to sell the firm's stock at a higher price, is incorrect as this is the general purpose of an IPO and not specific to the "Greenshoe option."