

FBLA New Securities and Investments Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What term describes the securities used in additional offerings to purchase available shares, usually at a discount?**
 - A. Subscription Right**
 - B. Equity Option**
 - C. Warrant**
 - D. Common Stock**
- 2. In a typical transaction, what does T + 3 refer to?**
 - A. Trade plus three business days**
 - B. Trade plus one business day**
 - C. Trade plus two business days**
 - D. Trade plus four business days**
- 3. What does it mean when a risk is classified as "standard" in insurance?**
 - A. It has average loss potential**
 - B. It has a low loss potential**
 - C. It has a high loss potential**
 - D. It is uninsurable**
- 4. What is typically included as taxable income?**
 - A. Income from savings accounts**
 - B. Income received from a job**
 - C. Gift money from relatives**
 - D. Funds received as loans**
- 5. What economic measure does LIBOR being a benchmark indicate?**
 - A. The cost of government borrowing**
 - B. The cost of interbank lending**
 - C. The interest rate on personal loans**
 - D. The rate of inflation**

- 6. What is the purpose of the cooling off period after a registration statement is filed?**
- A. To allow investors to buy shares immediately**
 - B. To prevent sales or advertising until the effective date**
 - C. To provide time for securities regulators to process information**
 - D. To allow companies to adjust pricing**
- 7. What type of insurance covers losses from unforeseen events like floods or fires?**
- A. Health Insurance**
 - B. Life Insurance**
 - C. Casualty Insurance**
 - D. Property Insurance**
- 8. Which interest rate is typically applied to corporations with high credit ratings for unsecured loans?**
- A. Discount Rate**
 - B. Prime Rate**
 - C. Fed Funds Rate**
 - D. Negotiable Certificate of Deposit Rate**
- 9. How long should you retain previous tax returns according to IRS recommendations?**
- A. 2 years**
 - B. 3 years**
 - C. 5 years**
 - D. 7 years**
- 10. Which of the following best describes a will?**
- A. A legal document that specifies the distribution of an individual's assets after death**
 - B. A financial plan for retirement savings**
 - C. A trust that protects the assets during the person's lifetime**
 - D. A contract for investment management services**

Answers

SAMPLE

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

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Explanations

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1. What term describes the securities used in additional offerings to purchase available shares, usually at a discount?

A. Subscription Right

B. Equity Option

C. Warrant

D. Common Stock

The term that describes the securities used in additional offerings to purchase available shares, usually at a discount, is subscription right. This is a special privilege granted to existing shareholders, allowing them the first opportunity to buy additional shares before the company offers them to the public. Subscription rights are typically issued at a price lower than the current trading price of the stock, which incentivizes existing shareholders to purchase more shares and avoid dilution of their ownership. This mechanism helps maintain shareholder control and gives investors an advantage in capitalizing on the company's potential growth at a favorable price, which is why it is particularly relevant to additional offerings. Such rights are often structured to allow shareholders to buy new shares proportionate to their existing holdings. Understanding this concept is essential in the context of investment strategies and shareholder rights, particularly for those involved in corporate finance or investment decisions regarding equity securities.

2. In a typical transaction, what does T + 3 refer to?

A. Trade plus three business days

B. Trade plus one business day

C. Trade plus two business days

D. Trade plus four business days

The term T + 3 refers to the settlement cycle for securities transactions, specifically indicating that the settlement of a trade occurs three business days after the actual trade date. This means that when a trade is executed, the transfer of the securities and the payment for those securities is completed three business days later. This practice allows time for the involved parties and their respective clearinghouses to process the trade, verify the details, and ensure that the proper funds and securities are transferred. Understanding the concept of T + 3 is important in the context of trading and investing, as it affects how long investors must wait to have their trades settled and reflect in their accounts. It's worth noting that industry practices may change over time, and there have been discussions about moving to shorter settlement periods, but T + 3 has been the standard for many years, particularly in the U.S. stock markets.

3. What does it mean when a risk is classified as "standard" in insurance?

- A. It has average loss potential**
- B. It has a low loss potential**
- C. It has a high loss potential**
- D. It is uninsurable**

When a risk is classified as "standard" in insurance, it means that the risk has average loss potential. This classification indicates that the likelihood of loss associated with the risk falls within a typical range that is generally acceptable for insurers. Insurers utilize this classification system to determine premiums and coverage options. A "standard" risk is often assessed using historical data and actuarial science, which help insurers to gauge the average losses experienced within that category of risk. By classifying risks in this way, insurers can apply appropriate pricing and underwriting practices that ensure they can cover the expected claims while also remaining profitable. In contrast, risks categorized as low would suggest minimal likelihood of loss, while those labeled as high would indicate a greater chance of loss occurrence. An uninsurable risk would typically be one that cannot be adequately priced or for which no insurer is willing to provide coverage, which is fundamentally different from a 'standard' risk. This understanding of classifications is crucial for both insurers and policyholders in making informed decisions.

4. What is typically included as taxable income?

- A. Income from savings accounts**
- B. Income received from a job**
- C. Gift money from relatives**
- D. Funds received as loans**

Taxable income generally refers to any income that is subject to taxation by the IRS. Income received from a job is considered earned income, which is fully taxable. This includes wages, salaries, commissions, bonuses, and other compensation for work performed. On the other hand, income from savings accounts, while subject to interest, is considered taxable but often reported under different guidelines. Gift money from relatives is not taxable income for the recipient; instead, it is considered a gift, which has its own tax implications for the giver. Funds received as loans are also not taxable income because they are not considered earnings but rather borrowed money that must be paid back. Thus, income received from a job stands out as the only option that represents traditional taxable income.

5. What economic measure does LIBOR being a benchmark indicate?

- A. The cost of government borrowing**
- B. The cost of interbank lending**
- C. The interest rate on personal loans**
- D. The rate of inflation**

LIBOR, the London Interbank Offered Rate, serves as a critical benchmark for the cost of interbank lending. It represents the interest rates at which banks offer to lend money to one another on a short-term basis, typically for periods ranging from overnight to one year. This rate reflects the credit risk, liquidity, and overall economic conditions prevailing in the banking sector. When banks assess their willingness to lend to one another, they consider factors such as the perceived risk of default by borrowers and current market conditions. LIBOR's role as a benchmark is crucial because it influences many financial products and contracts, including mortgage rates, derivatives, and other loans, by providing a transparent and standardized rate. The significance of LIBOR extends beyond just interbank lending; it affects the cost of borrowing for consumers and businesses, thus having a broader impact on economic activity. However, its primary function is to serve as a measure of how much banks charge each other for loans, making the identification of this measure as the cost of interbank lending accurate.

6. What is the purpose of the cooling off period after a registration statement is filed?

- A. To allow investors to buy shares immediately**
- B. To prevent sales or advertising until the effective date**
- C. To provide time for securities regulators to process information**
- D. To allow companies to adjust pricing**

The chosen answer highlights a fundamental aspect of securities regulation. The cooling off period serves as a crucial time frame during which the issuer of the securities cannot engage in sales or advertising of the securities until the registration becomes effective. This prohibition is designed to ensure that all material information regarding the security has been adequately disclosed and that potential investors are not swayed by promotional activities that could distort the actual value or risks associated with the security. During this period, the Securities and Exchange Commission (SEC) or other regulatory bodies review the registration statement to ensure compliance with applicable laws and regulations. This helps provide investors with a fair opportunity to assess the investment and make informed decisions. The cooling off period thus enhances market integrity and investor protection, allowing for a more orderly and transparent market environment once the securities are officially available for sale.

7. What type of insurance covers losses from unforeseen events like floods or fires?

- A. Health Insurance**
- B. Life Insurance**
- C. Casualty Insurance**
- D. Property Insurance**

The correct answer is related to the mechanism by which insurance policies are designed to protect individuals and businesses from financial loss due to unexpected events. Casualty insurance, as a term, encompasses a variety of coverages that protect against loss due to accidents and certain types of mishaps, including the liability for injuries to other people or damage to property. However, it primarily covers aspects of liability rather than direct loss from unforeseen disasters. For the context of covering losses specifically from events like floods or fires, property insurance is the most accurate designation. Property insurance is designed to cover damage to or loss of physical property from perils such as fire, theft, and natural disasters. It focuses specifically on the protection of tangible assets and the losses resulting from unforeseen events affecting that property. This distinction is key; casualty insurance might include liability related to damages incurred but does not offer the direct coverage for the property damage itself. Hence, in scenarios of property damage from unforeseen events like floods or fires, property insurance would be the more appropriate form of protection.

8. Which interest rate is typically applied to corporations with high credit ratings for unsecured loans?

- A. Discount Rate**
- B. Prime Rate**
- C. Fed Funds Rate**
- D. Negotiable Certificate of Deposit Rate**

The prime rate is the correct answer as it represents the interest rate that commercial banks offer to their most creditworthy customers, which typically include corporations with high credit ratings. This rate is often used as a benchmark for various loan products, particularly unsecured loans. Corporations with strong credit ratings are viewed as lower-risk borrowers, which places them in a favorable position to secure financing at lower interest rates compared to other entities. This lower risk is reflected in the prime rate, as lenders are more willing to offer favorable terms to borrowers who present a lower likelihood of default. Other rates mentioned serve different purposes; for example, the discount rate is the interest rate charged by central banks on loans they give to commercial banks and is not directly applicable to corporate borrowing. The Fed Funds Rate is the rate at which banks lend to each other overnight, which also doesn't specifically apply to unsecured loans for corporations. Lastly, the negotiable certificate of deposit rate typically pertains to time deposits and is not relevant to the context of unsecured corporate loans.

9. How long should you retain previous tax returns according to IRS recommendations?

- A. 2 years
- B. 3 years**
- C. 5 years
- D. 7 years

The Internal Revenue Service (IRS) recommends retaining your tax returns for three years after the filing date. This period is considered sufficient in case the IRS decides to audit your return or if you need to amend it. The three-year timeframe allows the IRS to review your tax filings while also providing you with adequate time to gather necessary documentation for any future inquiries or adjustments. While there are situations that may require longer retention, such as if you have not reported income that you should have or if you file a claim for a refund after the original filing period, the standard guideline is three years. This is a practical duration for most taxpayers, balancing the need for record-keeping with the potential for audits or amendments.

10. Which of the following best describes a will?

- A. A legal document that specifies the distribution of an individual's assets after death**
- B. A financial plan for retirement savings
- C. A trust that protects the assets during the person's lifetime
- D. A contract for investment management services

A will is indeed a legal document that specifies how an individual's assets will be distributed after their death. This document details the wishes of the deceased regarding the handling of their estate, which can include property, money, and personal belongings. By outlining these preferences, a will provides clarity and helps to ensure that the assets are distributed according to the individual's intentions, which can help prevent disputes among surviving family members and beneficiaries. In contrast, other options present different financial tools or concepts. For example, a financial plan for retirement savings focuses on accumulating and managing funds during one's lifetime to ensure financial security in retirement, rather than the distribution of assets after death. Similarly, a trust is designed to manage and protect assets during an individual's lifetime and can have specific functions related to asset management and protection, but it does not replace a will for distributing assets after death. Lastly, a contract for investment management services involves the management of investments by a financial advisor or firm, which is unrelated to the posthumous distribution of assets as described in a will. Therefore, the definition that aligns with the concept of a will is the one that specifies how assets are handled after an individual's passing.