Financial Industry Regulatory Authority (FINRA) Practice Exam (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

Table of Contents

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Don't worry about getting everything right, your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations, and take breaks to retain information better.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning.

7. Use Other Tools

Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There’s no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly — adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **Which entity has the greatest influence on the U.S. money supply?**
   - A. The Depository Trust Corporation (DTC)
   - B. The Internal Revenue Service (IRS)
   - C. The Securities Exchange Commission (SEC)
   - D. The Federal Open Market Committee (FOMC)

2. **On what basis is the redemption value of an open-end investment company's shares determined?**
   - A. Previous offering price
   - B. Previous closing net asset value (NAV)
   - C. NAV computed after the order is received
   - D. Offering price computed after the order is received

3. **Which of the following describes a convertible bond?**
   - A. A bond that can be exchanged for a given number of shares of stock
   - B. A bond that pays interest in the form of additional bonds
   - C. A bond that has a maturity longer than 30 years
   - D. A bond that is issued by a foreign government

4. **Which of the following is an exception to the written notice and approval requirement for borrowing from or lending to a client?**
   - A. The customer has a business relationship with the registered representative outside of the firm
   - B. The customer is an immediate family member of the registered representative
   - C. Both are employed by the same broker-dealer
   - D. The customer has a personal relationship with the registered representative outside of the firm

5. **What is true regarding an officer of a public company who buys registered stock in the open market?**
   - A. The officer can sell immediately, with no volume restrictions
   - B. The officer can sell immediately, subject to Rule 144 volume limitations
   - C. The officer can only sell after leaving the company
   - D. The officer must wait six months before selling under Rule 144

6. What term describes the situation when an investor sells an option that they previously purchased?

A. Selling to close

B. Selling to open

C. Short selling

D. Liquidating a position

7. In a margin account, what portion of a joint account's value is covered by insurance?

A. Market value of all securities

B. Total account value

C. Equity in the account

D. Debit balance incurred

8. Which of the following products is adversely impacted if the issuer's credit rating is downgraded?

A. Mutual funds

B. Unit investment trusts (UITs)

C. Exchange-traded funds (ETFs)

D. Exchange-traded notes (ETNs)

9. A member firm suspects financial exploitation of a senior customer. What action can be taken?

A. Notify the SEC and freeze all accounts immediately

B. Contact anyone who knows the customer for verification

C. Contact a trusted contact person and temporarily hold disbursements

D. Take no action until formally investigated

10. Which of the following best describes a characteristic of retail investors?

A. They only invest through institutions

B. They purchase securities for personal accounts

C. They are always accredited

D. They only engage in high-risk investments

Answers

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

Explanations

1. Which entity has the greatest influence on the U.S. money supply?

A. The Depository Trust Corporation (DTC)

B. The Internal Revenue Service (IRS)

C. The Securities Exchange Commission (SEC)

D. The Federal Open Market Committee (FOMC)

The Federal Open Market Committee (FOMC) is responsible for making crucial decisions regarding monetary policy in the United States, thus having the greatest influence on the money supply. The FOMC sets target interest rates, such as the federal funds rate, and employs open market operations, which involve buying and selling government securities. These actions directly impact how much money banks can lend, thereby influencing overall liquidity and the money supply in the economy. By adjusting interest rates and controlling the availability of money, the FOMC can stimulate economic growth or rein in inflation. For example, lowering interest rates makes borrowing cheaper, encouraging spending and investment, which increases the money supply. Conversely, raising interest rates can curtail excessive lending and spending, decreasing the money supply. This pivotal role in managing the economy reflects the FOMC's power over the money supply. The other entities mentioned do not hold a similar level of influence over monetary policy. The Depository Trust Corporation focuses on clearing and settling trades, which does not directly affect the overall money supply. The Internal Revenue Service is primarily concerned with tax collection and enforcement, and while taxes can affect economic activity, they do not control the money supply. The Securities and Exchange Commission regulates the securities markets but does not have direct

2. On what basis is the redemption value of an open-end investment company's shares determined?

A. Previous offering price

B. Previous closing net asset value (NAV)

C. NAV computed after the order is received

D. Offering price computed after the order is received

The redemption value of an open-end investment company's shares is determined based on the net asset value (NAV) computed after the order is received. This means that when a shareholder submits a redemption request, the value of their shares is assessed at the current NAV at that specific point in time, rather than any previous value or offering price. The NAV is calculated by taking the total assets of the fund, subtracting any liabilities, and then dividing by the number of shares outstanding. This method ensures that investors are buying or selling shares based on the most current information about the fund's value, reflecting any changes in the underlying securities during the trading day. It’s important to note that the pricing of redeemable shares must be fair and accurately reflects the current value of the fund’s investments, which adheres to regulatory requirements intended to protect investors' interests.

3. Which of the following describes a convertible bond?

- **A. A bond that can be exchanged for a given number of shares of stock**
- B. A bond that pays interest in the form of additional bonds
- C. A bond that has a maturity longer than 30 years
- D. A bond that is issued by a foreign government

A convertible bond is specifically designed to provide the bondholder with the option to convert the bond into a specified number of shares of the issuing company's stock. This feature allows investors to benefit from potential increases in the company's stock price while still receiving regular interest payments from the bond until conversion. The attractiveness of convertible bonds lies in their hybrid nature, allowing investors to partake in equity-like upside while also having the safety and fixed income characteristics of a traditional bond. The other options do not accurately define a convertible bond. For instance, while some bonds might pay interest in different forms, they do not typically categorize as convertible; convertible bonds explicitly offer equity conversion rights. The notion that a bond must have a maturity longer than 30 years does not apply, as convertible bonds can have various maturity lengths. Similarly, a bond issued by a foreign government does not align with the concept of convertibility, as this term refers primarily to the conversion into stock, not issuer nationality.

4. Which of the following is an exception to the written notice and approval requirement for borrowing from or lending to a client?

- A. The customer has a business relationship with the registered representative outside of the firm
- **B. The customer is an immediate family member of the registered representative**
- C. Both are employed by the same broker-dealer
- D. The customer has a personal relationship with the registered representative outside of the firm

The scenario described pertains to the regulations surrounding borrowing and lending between registered representatives and their clients. The correct answer highlights that a registered representative may not need to provide written notice and obtain approval when the client is an immediate family member. This exception exists because transactions involving immediate family members are generally viewed as personal and are subject to different scrutiny compared to those involving clients who do not have such a relationship. The rationale is that the nature of the relationship often implies a level of trust and understanding that is distinct from a typical client-representative dynamic. This does not eliminate the possibility of oversight but recognizes the familial bond as a factor that influences such transactions. Other options present scenarios where a connection exists, but they do not automatically qualify for the same exceptions as immediate family. For instance, a business relationship or a personal relationship with a client who is not an immediate family member could still pose a conflict of interest or lead to misunderstandings. Similarly, both individuals being employed by the same broker-dealer does not inherently create a familial bond and thus doesn't exempt them from the requirement of written notice and approval. Understanding these distinctions is crucial for compliance and maintaining ethical standards in the financial industry.

5. What is true regarding an officer of a public company who buys registered stock in the open market?

A. The officer can sell immediately, with no volume restrictions

B. The officer can sell immediately, subject to Rule 144 volume limitations

C. The officer can only sell after leaving the company

D. The officer must wait six months before selling under Rule 144

When an officer of a public company purchases registered stock in the open market, they are subject to certain regulations regarding the subsequent sale of those shares. Specifically, the correct answer indicates that the officer can sell the stock immediately, but they must adhere to the volume limitations imposed by Rule 144. Rule 144 is designed to impose guidelines around the sale of restricted and control securities. Control securities are typically owned by officers, directors, or major shareholders, and when these individuals sell their shares, they must follow specific volume restrictions to avoid flooding the market and potentially affecting stock prices adversely. Under this rule, an officer can sell a certain percentage of the shares they own or a specific number of shares over a given timeframe, often calculated as 1% of the outstanding shares or the average weekly trading volume during the prior four weeks. This framework helps to ensure that such transactions don’t unduly disrupt the market while allowing the officer to liquidate their investment. Options that suggest no restrictions or longer waiting periods do not align with the provisions set forth under Rule 144, making the understanding of these regulation nuances critical for compliance and trading practices for company insiders.

6. What term describes the situation when an investor sells an option that they previously purchased?

A. Selling to close

B. Selling to open

C. Short selling

D. Liquidating a position

The term that best describes the situation when an investor sells an option that they previously purchased is known as "selling to close." This process occurs when an investor who holds a long option position decides to sell that option in order to exit the position, ideally at a profit or to limit a loss. In this context, the investor's original transaction involved buying the option, which established a long position. The act of selling this option subsequently allows the investor to close out that position. This terminology is essential in the options market, as it differentiates between opening and closing transactions tied to existing positions. The other terms provided have specific meanings that do not apply in this situation. "Selling to open" refers to a new transaction where an investor sells an option they do not own, which establishes a new short position. "Short selling" relates to the sale of securities that the seller does not own, expecting to buy them back at a lower price, but it is not specific to options nor does it apply to the act of selling a previously purchased option. "Liquidating a position" generally refers to the process of selling any security to turn it into cash, but it is broader and does not specifically emphasize the distinction of option transactions as "selling to close

7. In a margin account, what portion of a joint account's value is covered by insurance?

A. Market value of all securities

B. Total account value

C. Equity in the account

D. Debit balance incurred

In a margin account, the insurance coverage typically applies to the equity in the account, which represents the net asset value that belongs to the account holders after accounting for any borrowing against those assets. Equity is calculated as the value of the securities held in the account minus the debit balance, or the amount owed. This is significant because it reflects the actual financial stake that the joint account holders have in the account, as opposed to the total account value or the market value of all securities, which may include outstanding loans. Understanding insurance coverage in margin accounts is crucial for investors, as it protects their equity even if market fluctuations cause the value of the securities to decline. This distinction is important for ensuring that investors have a safety net for their investments when using borrowed funds in a margin account. Other options, like the total account value or market value of all securities, do not accurately reflect what the insurance covers, which is specifically the equity portion.

8. Which of the following products is adversely impacted if the issuer's credit rating is downgraded?

A. Mutual funds

B. Unit investment trusts (UITs)

C. Exchange-traded funds (ETFs)

D. Exchange-traded notes (ETNs)

When an issuer's credit rating is downgraded, it signifies an increased risk of default or a decline in creditworthiness, affecting the perceived safety and value of their financial products. Exchange-traded notes (ETNs) are unsecured debt obligations issued by financial institutions that are linked to the performance of a particular index or asset. Because they are debt instruments, any deterioration in the issuer's credit rating directly affects the ETN's attractiveness and value. Investors would perceive these notes as riskier, leading to a decline in their market price. In contrast, mutual funds, unit investment trusts (UITs), and exchange-traded funds (ETFs) typically hold a diversified portfolio of securities. While the value of the assets within these funds could be affected by market changes or the performance of specific underlying securities, the funds themselves are not directly tied to the credit rating of the issuer like ETNs are. This differentiation highlights why ETNs face more significant adverse impacts from a downgrade in credit rating compared to the other investment vehicles.

9. A member firm suspects financial exploitation of a senior customer. What action can be taken?

A. Notify the SEC and freeze all accounts immediately

B. Contact anyone who knows the customer for verification

C. Contact a trusted contact person and temporarily hold disbursements

D. Take no action until formally investigated

In situations where a member firm suspects financial exploitation of a senior customer, contacting a trusted contact person and temporarily holding disbursements is a prudent and appropriate action to take. This approach aligns with regulatory guidelines that allow firms to act in the best interest of their senior clients while also fulfilling their duty to protect vulnerable populations. By reaching out to a trusted contact person, the firm can gather additional information or insight regarding the situation without compromising the customer's relationship with their financial assets. This trusted contact could be a family member, friend, or advisor who is familiar with the client's circumstances and can help assess the validity of the suspicions regarding exploitation. Furthermore, temporarily holding disbursements helps prevent potential further harm to the senior customer's finances. This action allows the firm to investigate the circumstances more thoroughly and ensures that any potentially fraudulent or inappropriate activities are halted while the necessary checks are conducted. This protective measure is crucial for seniors, as they may be at a higher risk of financial exploitation due to various factors, including cognitive decline or increased reliance on others. Other options may not be appropriate. For instance, notifying the SEC and freezing all accounts immediately might be too drastic without a full understanding of the situation, potentially leading to unnecessary disruption. Contacting anyone who knows the

10. Which of the following best describes a characteristic of retail investors?

A. They only invest through institutions

B. They purchase securities for personal accounts

C. They are always accredited

D. They only engage in high-risk investments

The characteristic that best describes retail investors is that they purchase securities for personal accounts. Retail investors are typically individuals who invest their personal funds directly in securities, such as stocks, bonds, or mutual funds, for their own benefit. This distinguishes them from institutional investors, like banks or pension funds, which manage large pools of money on behalf of others. Retail investors do not exclusively use institutional channels for their investments, and they come from a wide variety of financial backgrounds, meaning they are not always accredited or limited to high-risk investments. Instead, retail investors can engage in a variety of investment strategies, ranging from conservative to aggressive, depending on their risk tolerance and financial goals. Thus, the option that identifies their nature as purchasers of securities for their personal accounts accurately captures the essence of who retail investors are.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://finra.examzify.com

We wish you the very best on your exam journey. You've got this!