

General Securities Representative (Series 7) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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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. 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.

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. 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

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- 1. Which of the following is true about the trading of index options?**
 - A. They can be exercised anytime before expiry**
 - B. They are exclusively traded on the NYSE**
 - C. They trade 24 hours a day**
 - D. They settle based on the closing price of the index**

- 2. Where are specialists commonly found?**
 - A. Over-the-counter markets**
 - B. On the stock exchanges**
 - C. In private equity**
 - D. In mutual funds**

- 3. In trading index options, who is responsible for paying the seller the premium?**
 - A. Owner**
 - B. Buyer**
 - C. Broker**
 - D. Exchange**

- 4. When are buyers allowed to resell securities from a Rule 147 offering?**
 - A. Immediately after purchase**
 - B. After holding for 6 months**
 - C. After 9 months from the last sale by the issuer**
 - D. After obtaining a waiver**

- 5. What regulatory body is responsible for overseeing securities transactions to protect investors?**
 - A. Securities Exchange Commission (SEC)**
 - B. Financial Industry Regulatory Authority (FINRA)**
 - C. Consumer Financial Protection Bureau (CFPB)**
 - D. Federal Deposit Insurance Corporation (FDIC)**

6. What does "due diligence" involve in the investment process?

- A. The process of formally documenting all financial transactions**
- B. The investigation and assessment of a potential investment's information and risks**
- C. Only the evaluation of past investment performances**
- D. Securing financing to complete a transaction**

7. Which financial metric is typically used to measure a company's profitability?

- A. Debt-to-equity ratio**
- B. Return on equity (ROE)**
- C. Current ratio**
- D. Quick ratio**

8. What do "interest payments" on a bond represent?

- A. Payments made to shareholders as dividends**
- B. Fees charged by the issuer for bond management**
- C. Compensation paid to bondholders for lending money to the issuer, typically paid semi-annually**
- D. Taxes imposed on bond transactions**

9. What is the function of a stock exchange?

- A. To facilitate trading of stocks and securities in a regulated environment**
- B. To assess the creditworthiness of borrowers**
- C. To provide investment advice to individual investors**
- D. To manage government debt**

10. Who is primarily benefited by a defined benefit plan?

- A. Young employees**
- B. Part-time employees**
- C. Older employees**
- D. Self-employed individuals**

Answers

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

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Explanations

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1. Which of the following is true about the trading of index options?

- A. They can be exercised anytime before expiry**
- B. They are exclusively traded on the NYSE**
- C. They trade 24 hours a day**
- D. They settle based on the closing price of the index**

The statement that index options settle based on the closing price of the index is accurate. Index options are a type of derivative that allows investors to speculate on or hedge against future movements in the underlying index. Unlike standard stock options, which can be exercised at any time during their life, index options typically settle through cash on expiration day based on the final value of the underlying index at the market close. This means that if you hold an index option through expiration, your profit or loss is determined by the settlement value, which is derived from the index's closing price. This structure also differentiates index options from equity options, which can be exercised at any time before expiration, allowing for more flexibility. While options on indices might be listed on various exchanges, including the Cboe and others, it's essential to recognize that they are not exclusively traded on any single exchange like the NYSE. Lastly, index options do not trade 24 hours a day; they have specific trading hours that are typically aligned with standard trading hours of major U.S. exchanges.

2. Where are specialists commonly found?

- A. Over-the-counter markets**
- B. On the stock exchanges**
- C. In private equity**
- D. In mutual funds**

Specialists are key participants in the trading process found specifically on stock exchanges. Their primary role is to facilitate trading in particular stocks by acting as market makers, which means they help maintain an orderly market by matching buy and sell orders. Specialists ensure that there is liquidity in the markets for the stocks they manage, and they are responsible for balancing supply and demand, especially during periods of high volatility. In contrast, over-the-counter markets do not generally involve specialists in the same manner, as trading in these markets is typically facilitated by market makers rather than specialists. Private equity and mutual funds are both different investment vehicles where the role of specialists is not present; these fund structures do not require the same trading mechanisms as stock exchanges do. Understanding where specialists operate helps clarify their importance in maintaining fair and efficient markets on stock exchanges.

3. In trading index options, who is responsible for paying the seller the premium?

- A. Owner**
- B. Buyer**
- C. Broker**
- D. Exchange**

In the context of index options trading, the buyer of the option is responsible for paying the seller (or writer) the premium. This payment reflects the buyer's right to exercise the option, while the seller receives the premium as compensation for taking on the obligation associated with the contract. The buyer initiates the transaction by purchasing the option, which entails paying the premium upfront. This sets the stage for the buyer to benefit from possible movements in the underlying index without having to actually own the index itself. If the option is exercised, the buyer gains the advantage of the market position they have secured through the purchase of the option, all while the seller retains the premium regardless of the outcome. The other options, such as the owner, broker, and exchange, do not represent the party responsible for premium payment within this specific transaction. The owner does not necessarily equate with the buyer in this context, as there are various participants in the market. Brokers facilitate the transactions and provide access to the market but are not the parties involved in the exchange of premium between the buyer and seller. The exchange, while it provides the platform for trading and oversees the market's operation, does not directly participate in the payment of premiums within individual option trades.

4. When are buyers allowed to resell securities from a Rule 147 offering?

- A. Immediately after purchase**
- B. After holding for 6 months**
- C. After 9 months from the last sale by the issuer**
- D. After obtaining a waiver**

In a Rule 147 offering, which is designed for intrastate offerings, buyers are restricted in their ability to resell the securities to ensure that the offering is primarily aimed at residents of the state where the issuer is located. According to the guidelines of Rule 147, securities acquired in this context cannot be sold to non-residents for a period of nine months following the last sale by the issuer. This provision is critical because it helps maintain the local character of the offering by preventing out-of-state investors from rapidly flipping the securities. The nine-month holding period requirement encourages buyers to invest more seriously, as they must hold the securities for that duration before they can offer them for resale outside the state. With the understanding of the intrinsic purpose of Rule 147 and the regulations surrounding it, the correct answer reflects the necessary compliance with the holding period mandated by the SEC. This provision is particularly important for maintaining the integrity of intrastate offerings and ensuring that they meet their intended purpose of benefiting local businesses and investors.

5. What regulatory body is responsible for overseeing securities transactions to protect investors?

- A. Securities Exchange Commission (SEC)**
- B. Financial Industry Regulatory Authority (FINRA)**
- C. Consumer Financial Protection Bureau (CFPB)**
- D. Federal Deposit Insurance Corporation (FDIC)**

The Securities and Exchange Commission (SEC) is the primary regulatory body responsible for overseeing securities transactions in order to protect investors. Established by the Securities Exchange Act of 1934, the SEC's mission includes enforcing federal securities laws, promoting fair and efficient markets, and facilitating capital formation. It plays a critical role in maintaining investor confidence by ensuring that public companies provide accurate and complete financial information, thereby fostering transparency in the securities markets. The SEC has the authority to regulate stock exchanges, securities brokers, investment advisors, and mutual funds among other entities. It implements rules and regulations that are essential for the functioning of the securities markets and for safeguarding investors' interests, which is why it is the most appropriate choice for this question. Other options, while relevant in the financial sector, have different focuses. The Financial Industry Regulatory Authority (FINRA) is a self-regulatory organization responsible for overseeing brokerage firms and their registered representatives, but its role is more about regulation at the industry level rather than protecting investors through overarching federal laws. The Consumer Financial Protection Bureau (CFPB) deals with consumer financial products and services, emphasizing consumer protection in finance, but does not govern securities. The Federal Deposit Insurance Corporation (FDIC) focuses on protecting depositors in banks and does

6. What does "due diligence" involve in the investment process?

- A. The process of formally documenting all financial transactions**
- B. The investigation and assessment of a potential investment's information and risks**
- C. Only the evaluation of past investment performances**
- D. Securing financing to complete a transaction**

Due diligence is a critical component of the investment process that involves a comprehensive investigation and assessment of a potential investment's information and risks. This process is essential for investors to understand the underlying factors that could impact the potential return on investment. During due diligence, an investor examines the financial health, operational performance, legal aspects, and market position of the asset or company being considered for investment. This thorough analysis helps to identify risks, validate assumptions, and make informed decisions about whether to proceed with the investment or not. This level of scrutiny is necessary to safeguard the investor's capital and ensure that they are making knowledgeable choices based on a well-rounded understanding of the opportunity. While the other options might touch on aspects of the investment process, they don't capture the essence of due diligence as effectively. For instance, simply documenting financial transactions or only evaluating past performances does not provide the comprehensive risk assessment that due diligence is intended to achieve. Similarly, securing financing is a separate step in the investment process and does not relate directly to the investigative framework that due diligence encompasses.

7. Which financial metric is typically used to measure a company's profitability?

- A. Debt-to-equity ratio**
- B. Return on equity (ROE)**
- C. Current ratio**
- D. Quick ratio**

Return on equity (ROE) is a critical financial metric used to measure a company's profitability. It indicates how effectively a company generates profit from its shareholders' equity. Specifically, ROE is calculated by dividing net income by the average shareholders' equity over a certain period. A higher ROE suggests that a company is efficient at converting equity investments into profits, indicating strong financial performance from the perspective of equity holders. This metric is particularly valuable for investors as it helps them assess how well their capital is being utilized to generate earnings. Comparing the ROE of different companies or analyzing a company's ROE over time can provide insights into how well management is executing its business strategy. In contrast, other options are focused on different financial aspects. The debt-to-equity ratio evaluates a company's leverage and financial risk rather than its profitability. The current ratio and quick ratio are liquidity measures that assess a company's ability to meet its short-term obligations, but they do not provide any direct indication of profitability. Hence, ROE stands out as the primary metric for gauging profitability among these choices.

8. What do "interest payments" on a bond represent?

- A. Payments made to shareholders as dividends**
- B. Fees charged by the issuer for bond management**
- C. Compensation paid to bondholders for lending money to the issuer, typically paid semi-annually**
- D. Taxes imposed on bond transactions**

Interest payments on a bond represent the compensation paid to bondholders for lending money to the issuer, typically paid on a semi-annual basis. When an investor buys a bond, they are essentially providing a loan to the issuer, which can be a government, municipality, or corporation. In return for this loan, the issuer agrees to pay back the principal amount at maturity and makes periodic interest payments along the way, which are calculated based on the bond's coupon rate. These interest payments are a critical component of the bond's value and provide the investor with income during the life of the bond. The semi-annual nature of these payments is a common practice in bond markets, reinforcing the bondholder's role as a lender who is compensated for the use of their funds.

9. What is the function of a stock exchange?

A. To facilitate trading of stocks and securities in a regulated environment

B. To assess the creditworthiness of borrowers

C. To provide investment advice to individual investors

D. To manage government debt

A stock exchange primarily serves as a marketplace where stocks and other securities are bought and sold in a regulated environment. This function is vital for ensuring transparency, liquidity, and fairness in the trading process. It provides a platform for buyers and sellers to connect, facilitating efficient price discovery based on supply and demand. The regulatory aspect ensures that trading adheres to specific rules and standards, protecting investors and maintaining market integrity. While assessing creditworthiness, providing investment advice, and managing government debt are important activities in the financial system, they fall outside the primary role of a stock exchange. Credit assessments are typically performed by credit rating agencies or financial institutions. Investment advice is provided by financial advisors or brokers who help investors make informed choices based on their individual goals and risk tolerance. Government debt management is handled by entities such as the U.S. Treasury or other governmental agencies that focus specifically on issuing and managing government bonds and other securities. Thus, the essential function of facilitating the trading of stocks and securities within a regulated framework distinctly identifies the primary role of a stock exchange.

10. Who is primarily benefited by a defined benefit plan?

A. Young employees

B. Part-time employees

C. Older employees

D. Self-employed individuals

A defined benefit plan is structured to provide a specified monthly benefit to participants upon retirement, which is usually based on a combination of salary history and years of service. This plan is particularly beneficial for older employees because they typically have the most years of service and hence can accumulate more retirement benefits over time. As employees age, they usually reach their highest earning potential, which translates to a higher benefit calculation upon retirement under a defined benefit plan. Additionally, since these plans are designed to offer a predictable income in retirement, older employees can rely on the benefits for financial security as they step away from their careers. Younger employees and part-time employees may not have sufficient time or contributions into the plan to fully benefit from it, while self-employed individuals typically do not participate in such employer-sponsored plans, as they would set up their own retirement saving options. Thus, older employees gain the most from defined benefit plans due to their longer tenure and higher salary positioning leading into retirement.

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-series7.examzify.com>

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

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