SECURITIES INDUSTRY ESSENTIALS (SIE) PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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.

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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!

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Questions

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1. **No-load mutual funds may have lower expense ratios than load mutual funds for which of the following reasons?**
   A. No-load funds offer a higher rate of return
   B. No-load funds are not permitted to charge a 12b-1 fee greater than 25 basis points
   C. No-load funds are typically smaller in size
   D. No-load funds are exempt from federal regulations

2. **What will the value of each non-preferred share be if a company has $100,000 in annual earnings and $75,000 in expenses, owing preferred shareholders $7,000, with 10,000 shares issued?**
   A. $1.80
   B. $2.30
   C. $3.00
   D. $0.70

3. **Which of the following is an example of the Integration stage of money laundering?**
   A. Buying a business
   B. Placing cash in a financial institution
   C. Layering through complex transactions
   D. Using small amounts below reportable thresholds

4. **What does Keynesian economic theory primarily deal with?**
   A. Controlling the economy through budget/government spending and taxation policies
   B. Regulating the stock market and its associated financial instruments
   C. Managing national defense and security measures
   D. Overseeing the operations of private sector companies

5. **Which of the following is not considered insider information?**
   A. Unreleased earnings reports
   B. Planned mergers or acquisitions
   C. Declared stock dividends
   D. Pending lawsuits against the company

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6. One of the primary risks associated with mortgage-backed securities is:

A. Credit risk

B. Prepayment risk

C. Interest rate risk

D. Currency risk

7. A particular issuer of bonds chooses to engage a managing underwriter under a negotiated, firm-commitment underwriting contract. The underwriter chooses to sell the bonds using a selling group rather than a syndicate. Who bears the financial risk of unsold bonds?

A. The selling group

B. The syndicate members

C. The bondholders

D. The managing underwriter

8. Which of the following is true of the cooling-off period?

A. A final prospectus must be submitted

B. Trading of the security is allowed

C. A preliminary prospectus may be submitted

D. No promotional efforts may be made

9. What does Regulation SHO severely restrict?

A. Initial Public Offerings

B. Short selling during the cooling-off period of a follow-on offering

C. Day trading activities

D. Margin trading

10. After a 10% stock dividend, if a customer holds 500 shares at $40.00, what is the new number of shares and price?

A. 550 shares at $36.36

B. 500 shares at $44.00

C. 550 shares at $40.00

D. 600 shares at $36.36

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Answers

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

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Explanations

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1. No-load mutual funds may have lower expense ratios than load mutual funds for which of the following reasons?

A. No-load funds offer a higher rate of return

B. No-load funds are not permitted to charge a 12b-1 fee greater than 25 basis points

C. No-load funds are typically smaller in size

D. No-load funds are exempt from federal regulations

No-load funds may have lower expense ratios than load mutual funds because they are not permitted to charge a 12b-1 fee greater than 25 basis points. This means that they are limited in the amount they can charge for marketing and distribution expenses, which can contribute significantly to the overall expenses of a mutual fund. Options A, C, and D do not provide an accurate explanation for why no-load funds may have lower expense ratios. Option A is incorrect because the rate of return on a fund is not directly related to its expense ratio. Option C is incorrect because the size of a fund does not determine its expense ratio. Option D is incorrect because federal regulations apply to all mutual funds, regardless of whether or not they have a sales charge.

2. What will the value of each non-preferred share be if a company has $100,000 in annual earnings and $75,000 in expenses, owing preferred shareholders $7,000, with 10,000 shares issued?

A. $1.80

B. $2.30

C. $3.00

D. $0.70

To calculate the value of each non-preferred share, we must first determine the total profit available to shareholders after preferred shareholders have been paid. In this scenario, the total profit is $23,000 ($100,000 - $75,000 - $7,000). Since there are 10,000 shares issued, dividing the total profit by the number of shares gives us a value of $2.30 per share. However, since preferred shareholders must be paid a fixed amount of $0.70 per share, the remaining amount is available for non-preferred shareholders, resulting in a value of $1.80 per share. Option B is incorrect because it does not take into account the $7,000 owed to preferred shareholders. Option C is incorrect because it does not consider the expenses of $75,000. Option D is incorrect because it only takes into account the earnings of $100,000 without considering the expenses and preferred shareholders' earnings.

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3. Which of the following is an example of the Integration stage of money laundering?

A. Buying a business

B. Placing cash in a financial institution

C. Layering through complex transactions

D. Using small amounts below reportable thresholds

Buying a business is an example of the Integration stage of money laundering because it is the final step in the process where illicit funds are incorporated into the legitimate economy. This option is correct because it involves the purchase of a legitimate business entity with the intention of using it to conceal the illegal source of funds. The other options are incorrect because they either involve the first two stages of money laundering (Placement and Layering) or do not involve the incorporation of illicit funds into the legitimate economy. Placing cash in a financial institution and using small amounts below reportable thresholds are examples of the Placement stage, where cash is introduced into the financial system. Layering through complex transactions is an example of the Layering stage, where multiple transactions are conducted to obscure the source of funds and make them appear legitimate.

4. What does Keynesian economic theory primarily deal with?

A. Controlling the economy through budget/government spending and taxation policies

B. Regulating the stock market and its associated financial instruments

C. Managing national defense and security measures

D. Overseeing the operations of private sector companies

Keynesian economic theory primarily deals with using government spending and taxation policies to control and stabilize the economy. This theory is focused on the role of the government in managing economic fluctuations and promoting overall economic stability. Option B, regulating the stock market, is a part of a different economic theory known as supply-side economics. Option C, managing national defense and security measures, is a function of government but not directly related to economic policy. Option D, overseeing private sector companies, is a function of regulatory agencies and does not pertain to economic theory. Hence, option A is the most accurate and relevant answer.

5. Which of the following is not considered insider information?

A. Unreleased earnings reports

B. Planned mergers or acquisitions

C. Declared stock dividends

D. Pending lawsuits against the company

Insider information refers to confidential information that is not available to the general public. Options A, B, and D all involve information that is not yet known by the public, and therefore would be considered insider information. However, stock dividends are a publicly declared distribution of a company's profits to its shareholders and are not considered confidential or privileged information.

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6. One of the primary risks associated with mortgage-backed securities is:

A. Credit risk

B. Prepayment risk

C. Interest rate risk

D. Currency risk

Mortgage-backed securities (MBS) are investments that are backed by mortgages. In this case, when someone takes out a mortgage to purchase a property, the lender can either sell that mortgage to another financial institution or bundle it with other mortgages into an MBS and sell it to investors. As a result, investors receive a share of the payments made by homeowners on their mortgages. While there are multiple risks associated with MBS, one of the primary risks is prepayment risk. This means that the homeowners can choose to pay off their mortgage earlier than expected, which can negatively impact the return to investors. If interest rates decrease and homeowners refinance their mortgages, investors lose out on the higher interest rate payments. Likewise, if homeowners make extra payments, investors receive their principal back earlier than expected. The other options listed in the question are not the primary risks associated with MBS. Credit risk refers to the risk of the borrower defaulting on their mortgage, which can be mitigated by diversifying the mortgages within an MBS. Interest rate risk refers to the risk of changes in interest rates affecting the value of an investment, but this is not specific to MBS as it applies to all fixed-income investments. Currency risk only applies

7. A particular issuer of bonds chooses to engage a managing underwriter under a negotiated, firm-commitment underwriting contract. The underwriter chooses to sell the bonds using a selling group rather than a syndicate. Who bears the financial risk of unsold bonds?

A. The selling group

B. The syndicate members

C. The bondholders

D. The managing underwriter

The managing underwriter bears the financial risk of unsold bonds. This is because in a negotiated, firm-commitment underwriting contract, the underwriter assumes full responsibility for purchasing and reselling the bonds at a predetermined price. The underwriter may choose to sell the bonds using a selling group, but this does not shift the financial risk to the selling group. The syndicate members and bondholders are not directly involved in the underwriting process and therefore do not bear the financial risk.

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8. Which of the following is true of the cooling-off period?

A. A final prospectus must be submitted

B. Trading of the security is allowed

C. A preliminary prospectus may be submitted

D. No promotional efforts may be made

A final prospectus must be submitted during the pre-selling period. This is the document that contains important information about a security, such as its risks, terms, and financial data. While trading of the security is allowed during the cooling-off period, it is not required to have a final prospectus submitted. Additionally, promotional efforts may be made during this period, making option D incorrect. The cooling-off period is a time frame between the pre-selling period and the effective date of the offering, during which a preliminary prospectus may be submitted and used to solicit interest from potential investors. Therefore, option C is the only correct statement about the cooling-off period.

9. What does Regulation SHO severely restrict?

A. Initial Public Offerings

B. Short selling during the cooling-off period of a follow-on offering

C. Day trading activities

D. Margin trading

Regulation SHO restricts short selling during the cooling-off period of a follow-on offering. The other options are incorrect because - Option A: Regulation SHO does not restrict Initial Public Offerings (IPOs). Instead, it focuses on regulating short selling and fails-to-deliver positions. - Option C: While the regulation does regulate short selling, it does not restrict day trading activities. - Option D: Similarly, Regulation SHO does not specifically restrict margin trading.

10. After a 10% stock dividend, if a customer holds 500 shares at $40.00, what is the new number of shares and price?

A. 550 shares at $36.36

B. 500 shares at $44.00

C. 550 shares at $40.00

D. 600 shares at $36.36

After a 10% stock dividend, the customer will have an additional 10% of their current shares, resulting in a total of 550 shares. However, the price per share will decrease by the same percentage, resulting in a new price of $36.36 per share. Option B is incorrect because the number of shares does not change after a stock dividend, only the price per share does. Option C is incorrect because the new share price will decrease due to the stock dividend, not stay the same. Option D is incorrect because while the number of shares increases by 20%, the price per share decreases by 10%, resulting in a lower total price.

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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://sie.examzify.com

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

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