SIE (Securities Industry Essentials) Practice Exam (Sample)

Study Guide

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Questions

1. **When is interest on Treasury notes paid?**

    A. Quarterly

    B. Annually

    C. Semiannually

    D. Monthly

2. **Which options strategy offers the greatest profit potential in a bull market?**

    A. Long Put

    B. Short Call

    C. Long Call

    D. Short Put

3. **A bond owner benefits from a sinking fund provision when bond prices are generally:**

    A. rising

    B. unchanged

    C. falling

    D. volatile

4. **What is the bid-ask spread for ABC equity security based on the current NBBO of $50.09 - $50.12?**

    A. $.03

    B. $.02

    C. $.04

    D. $.01

5. **A transaction in which a writer covers a position by purchasing an option is called:**

    A. A closing sale

    B. A closing purchase

    C. An opening sale

    D. An opening purchase

6. A person may be rejected from becoming a registered representative within FINRA if:

A. They have a criminal background

B. They fail the required exams

C. They do not meet the educational requirements

D. All of the above

7. Which of the following is NOT an advantage of an ETF compared to open-end mutual funds?

A. Undertrading

B. Intraday trading

C. Tax efficiency

D. Lower expense ratios

8. What must a financial institution do upon receiving a deposit of $12,000 from one customer?

A. Report to the IRS immediately

B. File a Currency Transaction Report

C. Request additional identification from the customer

D. Nothing, as it is under the reporting threshold

9. Who among the following has a fiduciary responsibility to their customers?

A. Stockbrokers

B. Municipal Advisors

C. Commercial Bankers

D. Real Estate Agents

10. How long are shelf registrations with the SEC good for?

A. Two years

B. Three years

C. Five years

D. Indefinitely

Answers

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

Explanations

1. When is interest on Treasury notes paid?

A. Quarterly

B. Annually

C. Semiannually

D. Monthly

Treasury notes have a fixed interest rate, which is paid to the owner twice a year. This means that the interest is paid semi-annually, or every six months. Therefore, options A, B, and D are incorrect since they suggest that the interest is paid more or less frequently than twice a year.

2. Which options strategy offers the greatest profit potential in a bull market?

A. Long Put

B. Short Call

C. Long Call

D. Short Put

The strategy that offers the greatest profit potential in a bull market is the Long Call option. This is because in a bull market, the stock prices are expected to rise and the Long Call option allows you to buy the underlying stock at a fixed price (strike price) and sell it at a higher price in the market. This results in a profit for the option holder. The other options, such as Long Put and Short Put, involve betting on a decrease in stock prices and therefore would not yield high profits in a bull market. Similarly, the Short Call option involves borrowing and selling stocks, which could lead to losses in a market where prices are rising.

3. A bond owner benefits from a sinking fund provision when bond prices are generally:

A. rising

B. unchanged

C. falling

D. volatile

A bond owner benefits from a sinking fund provision when bond prices are generally falling. This is because a sinking fund provision allows the issuer of the bond to redeem a portion of the bond before the maturity date, reducing the outstanding amount of the bond and therefore reducing the risk to the bondholder. Option A, rising bond prices, would not benefit the bondholder as the value of their bond would increase and they would lose potential future interest payments. Option B, unchanged bond prices, would also not benefit the bondholder as they would still be receiving the same interest payments without any potential reduction to the outstanding amount of the bond. Option D, volatile bond prices, does not necessarily provide any benefit to the bondholder as it simply means that the bond prices are fluctuating and could be rising, falling, or remaining unchanged.

4. What is the bid-ask spread for ABC equity security based on the current NBBO of $50.09 - $50.12?

A. $.03

B. $.02

C. $.04

D. $.01

The bid-ask spread is the difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask) for a security. In this scenario, the bid-ask spread is calculated by subtracting the bid price ($50.09) from the ask price ($50.12), resulting in a spread of $.03. The other options may seem close, but they do not accurately reflect the given NBBO. Option B is incorrect as it only considers the difference between the bid and ask price, not the actual spread. Option C is too high as it adds the spread to the higher bid price. Option D is too low as it subtracts the spread from the lower ask price.

5. A transaction in which a writer covers a position by purchasing an option is called:

A. A closing sale

B. A closing purchase

C. An opening sale

D. An opening purchase

In the context of options trading, when a writer (or seller) of an option takes action to eliminate their obligation or manage their risk, this is referred to as a closing purchase. A closing purchase occurs when the writer buys back the same option that they initially sold, effectively closing out their position in that option. This is important for risk management, as it allows the writer to limit potential losses from adverse market movements. By purchasing the option back, the writer is removing their obligation to fulfill the terms of the option contract if exercised by the holder. In contrast, the other concepts relate to different actions in options trading. A closing sale would refer to selling an option that one previously owned to close out that position. An opening sale refers to the initial transaction in which an option is sold to establish a new position. An opening purchase is the initial buying of an option to establish a new position. Understanding these terms helps clarify the mechanics of options trading and the various strategies employed by traders.

6. A person may be rejected from becoming a registered representative within FINRA if:

A. They have a criminal background

B. They fail the required exams

C. They do not meet the educational requirements

D. All of the above

A person may be rejected from becoming a registered representative within FINRA if they have a criminal background, fail the required exams, or do not meet the educational requirements. This means that all three options (A, B, and C) are correct and could result in someone being rejected. Option D is the best answer because it includes all possible reasons for rejection. However, selecting only one or two of the individual options would be incorrect as they do not encompass all the possible reasons for rejection.

7. Which of the following is NOT an advantage of an ETF compared to open-end mutual funds?

A. Undertrading

B. Intraday trading

C. Tax efficiency

D. Lower expense ratios

An advantage of an ETF, or exchange-traded fund, is its ability to be traded like a stock, allowing for intraday trading. Additionally, ETFs often have lower expense ratios compared to open-end mutual funds, which typically have higher management fees and transaction costs. ETFs are also more tax efficient than mutual funds, as they have lower annual capital gains distributions. Therefore, option A, undertrading, is not an advantage of an ETF and is an incorrect choice.

8. What must a financial institution do upon receiving a deposit of $12,000 from one customer?

A. Report to the IRS immediately

B. File a Currency Transaction Report

C. Request additional identification from the customer

D. Nothing, as it is under the reporting threshold

A financial institution is required to file a Currency Transaction Report (CTR) with the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) upon receiving a cash deposit of $12,000 or more from one customer. This report is used to help law enforcement agencies identify and track potential illegal activities, such as money laundering. Option A is incorrect because the institution does not report to the IRS, but to FinCEN. Option C may be a valid request, but it is not the main requirement in this scenario. Option D is incorrect because the reporting threshold for CTRs is $10,000, not $12,000.

9. Who among the following has a fiduciary responsibility to their customers?

A. Stockbrokers

B. Municipal Advisors

C. Commercial Bankers

D. Real Estate Agents

Municipal Advisors have a fiduciary responsibility to their customers because they are required to act in the best interests of their clients and provide them with unbiased advice. Stockbrokers have a suitabilitystandard which requires them to make recommendations that are suitable for their customers' investment goals, risk tolerance, and financial situation. Commercial Bankers have a duty to maintain the confidentiality of their customers' financial information, but they do not have a fiduciary responsibility. Real Estate Agents are commissioned salespeople and do not have the legal obligation to act in the best interests of their clients.

10. How long are shelf registrations with the SEC good for?

A. Two years

B. Three years

C. Five years

D. Indefinitely

Shelf registrations with the SEC are good for three years. Option A, Two years, is incorrect because this is not the standard duration for shelf registrations. Option C, Five years, is also incorrect because the shelf registration period is typically shorter than this. Option D, Indefinitely, is incorrect because shelf registrations do expire after a certain period of time, in this case, three years.