

STC S7 Greenlight 2 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

- 1. What was the investor's profit from the sale of ABC after exercising the put option?**
 - A. \$1,100**
 - B. \$800**
 - C. \$1,200**
 - D. \$900**

- 2. A customer has purchased \$15,000 in convertible bonds and deposited \$7,500. If these bonds increase to \$16,200, what is the amount of excess equity in the account?**
 - A. \$400**
 - B. \$600**
 - C. \$800**
 - D. \$1,000**

- 3. What statement about call option writers is EXCEPT?**
 - A. All gains are considered capital gains**
 - B. All unprofitable closing transactions are allowed as an ordinary loss deduction from income**
 - C. Risk is limited to the premium received**
 - D. They may have to buy shares at a higher market price**

- 4. What is a characteristic that makes a hedge fund unsuitable for certain investors?**
 - A. High liquidity of funds.**
 - B. Low levels of risk.**
 - C. Access to funds.**
 - D. Guaranteed returns.**

- 5. How is retained earnings used when calculating the debt-to-equity ratio?**
 - A. It is excluded from total equity**
 - B. It is added to the total equity**
 - C. It decreases the total equity**
 - D. None of the above**

- 6. When calculating the total equity in a margin account, what is true about the long position?**
- A. The market value is always equal to the debit balance**
 - B. It contributes positively to the overall equity calculation**
 - C. It decreases the overall equity if in a loss position**
 - D. It does not affect the overall equity**
- 7. During the payout period, what is the tax treatment of distributions from a qualified variable annuity that has grown from \$30,000 to \$50,000?**
- A. Taxed only on the amount exceeding the original investment**
 - B. Ordinary income on the entire amount**
 - C. Capital gains tax on the profits**
 - D. Tax-free distributions**
- 8. Which of the following statements is TRUE regarding straight-life payouts from a variable annuity?**
- A. The amount of the payment to the customer is guaranteed.**
 - B. The amount of the payment to the customer is not guaranteed.**
 - C. The payments will increase annually.**
 - D. The payments will decrease annually.**
- 9. In the liquidation of a limited partnership, who is the first to receive the distribution of assets?**
- A. Limited partners**
 - B. Secured creditors**
 - C. General creditors**
 - D. General partners**
- 10. What is the market price above which an individual will no longer have an effect on their profit after purchasing and writing calls?**
- A. 90**
 - B. 95**
 - C. 100**
 - D. 85**

Answers

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

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Explanations

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1. What was the investor's profit from the sale of ABC after exercising the put option?

- A. \$1,100**
- B. \$800**
- C. \$1,200**
- D. \$900**

To determine the investor's profit from the sale of ABC after exercising the put option, it is essential to consider the mechanics of how a put option works and the specific details involved in the transaction. A put option gives the holder the right, but not the obligation, to sell a specified amount of an underlying asset (in this case, ABC stock) at a predetermined price, known as the strike price, within a certain time frame. When an investor exercises the put option, they sell the shares at the strike price. In the scenario where the profit is calculated to be \$1,100, this suggests that after exercising the put option, the trader sold the stock at a strike price that provided a substantial return compared to the initial investment. This value also accounts for the costs associated with the put option, such as the premium paid for purchasing the option itself. To arrive at the profit of \$1,100, it is likely that the total revenue from exercising the option (the strike price multiplied by the number of shares sold) minus the initial investment (including the premium paid for the option) resulted in this specific profit figure. Therefore, it shows that the exercise of the option was favorable, with the market price declining enough for the put option to

2. A customer has purchased \$15,000 in convertible bonds and deposited \$7,500. If these bonds increase to \$16,200, what is the amount of excess equity in the account?

- A. \$400**
- B. \$600**
- C. \$800**
- D. \$1,000**

To determine the amount of excess equity in the account, we first need to understand the relationship between the amounts invested in convertible bonds and the current value of those bonds. The customer initially purchased convertible bonds worth \$15,000 and deposited \$7,500. This means that the customer financed half of the investment with their own equity (the deposit) and possibly the remaining amount through borrowed funds or margin accounts. Now, the value of the bonds has increased to \$16,200. To find the excess equity, we calculate the total equity in the account. Equity in a margin account is defined as the current market value of the asset minus any indebtedness that must be repaid. In this case, the formula for excess equity can be structured as follows: 1. Current value of bonds: \$16,200 2. Amount deposited (which serves as the customer's equity): \$7,500 3. The amount the customer can borrow against the bonds: \$15,000 - \$7,500 = \$7,500 From the current value of the bonds, if the customer has borrowed against them, we need to determine how much equity remains after accounting for this value. This means: - Total value of bonds: \$16,

3. What statement about call option writers is EXCEPT?

- A. All gains are considered capital gains
- B. All unprofitable closing transactions are allowed as an ordinary loss deduction from income**
- C. Risk is limited to the premium received
- D. They may have to buy shares at a higher market price

The statement regarding call option writers that stands out as an exception is that all unprofitable closing transactions are allowed as an ordinary loss deduction from income. When writers of call options engage in unprofitable transactions, these losses are typically classified as capital losses rather than ordinary losses. This distinction is significant because capital losses can only be deducted against capital gains, and if there are no capital gains, they can be carried forward to offset future capital gains but cannot reduce ordinary income directly. On the other hand, the other statements about call option writers reflect correct aspects of the mechanics and financial implications of options trading. Gains from options are generally classified as capital gains, aligning with how financial instruments are treated under tax regulations. The risk associated with writing call options is largely confined to the premium received, making it appear limited; however, the writer could face larger losses if the market price of the underlying asset rises substantially. Finally, the writer could indeed find themselves needing to buy shares at a higher market price if the option is exercised by the holder, leading to potential financial exposure.

4. What is a characteristic that makes a hedge fund unsuitable for certain investors?

- A. High liquidity of funds.
- B. Low levels of risk.
- C. Access to funds.**
- D. Guaranteed returns.

A characteristic that makes a hedge fund unsuitable for certain investors is access to funds. Hedge funds typically have higher investment minimums and may have restrictions on who can invest, often requiring individuals to be accredited investors or to meet specific financial criteria. This exclusivity can limit access for many potential investors, particularly those who may not meet the necessary financial thresholds. Hedge funds often employ complex investment strategies and can have significant barriers to entry, which can be off-putting for more risk-averse investors or those with lower net worths. The other options, such as high liquidity, low levels of risk, and guaranteed returns, do not apply as characteristics that would make hedge funds unsuitable; in fact, hedge funds can often be illiquid, may involve substantial risks, and do not guarantee returns, making their structure and investor requirements crucial factors to consider.

5. How is retained earnings used when calculating the debt-to-equity ratio?

- A. It is excluded from total equity**
- B. It is added to the total equity**
- C. It decreases the total equity**
- D. None of the above**

Retained earnings are an essential component of total equity in a company's balance sheet. When calculating the debt-to-equity ratio, which is a measure of a company's financial leverage, retained earnings are included as part of shareholders' equity. This ratio is calculated by dividing total liabilities by total equity, where total equity encompasses common stock, additional paid-in capital, and retained earnings. Including retained earnings signifies the accumulated profits that the company has retained for reinvestment rather than being distributed as dividends. Therefore, it contributes positively to the overall equity of the company, reinforcing the notion of equity as a buffer against debt. This inclusion provides a more comprehensive picture of the company's financial health by reflecting the total resources available to shareholders, enhancing the reliability and accuracy of the debt-to-equity ratio.

6. When calculating the total equity in a margin account, what is true about the long position?

- A. The market value is always equal to the debit balance**
- B. It contributes positively to the overall equity calculation**
- C. It decreases the overall equity if in a loss position**
- D. It does not affect the overall equity**

In a margin account, the total equity is influenced by the market value of the assets held in that account. A long position refers to the ownership of securities with the expectation that they will increase in value. When you hold a long position, the market value of those securities is a key component in calculating total equity. The reason the choice indicating that it contributes positively to the overall equity calculation is correct lies in the fundamental relationship between the market value of the assets and the equity in a margin account. The total equity is determined by subtracting the debit balance (the amount borrowed from the brokerage) from the current market value of the securities. If the market value of the long position increases, it enhances the total equity. Conversely, even if the long position is currently at a loss, it still has a market value that can contribute positively to the overall equity, unless the position is closed or if the losses exceed the initial investment. In summary, the long position positively contributes to the total equity calculation, as it represents an asset that adds to the value of the account, regardless of whether it is currently profitable or at a loss. It's important to recognize that while a loss in a long position does affect the total equity, the mere existence of that position represents

7. During the payout period, what is the tax treatment of distributions from a qualified variable annuity that has grown from \$30,000 to \$50,000?

A. Taxed only on the amount exceeding the original investment

B. Ordinary income on the entire amount

C. Capital gains tax on the profits

D. Tax-free distributions

In the context of a qualified variable annuity, the tax treatment during the payout period is based on how the distributions are characterized. For qualified accounts, all contributions are typically made with pre-tax dollars, meaning that taxes are deferred until funds are withdrawn. When distributions begin, the entire amount that is withdrawn from the qualified variable annuity—whether it is the original investment or the earnings accrued during the time—will be taxed as ordinary income. This is because qualified annuities are designed to provide tax-deferred growth, and any distributions during the payout phase will be subject to taxation in accordance with ordinary income tax rates. Therefore, if the value of the qualified variable annuity has grown from \$30,000 to \$50,000, withdrawing any amount during the payout period will result in the entire distribution being taxed as ordinary income, not just the portion exceeding the original investment or distributed tax-free.

8. Which of the following statements is TRUE regarding straight-life payouts from a variable annuity?

A. The amount of the payment to the customer is guaranteed.

B. The amount of the payment to the customer is not guaranteed.

C. The payments will increase annually.

D. The payments will decrease annually.

The correct statement regarding straight-life payouts from a variable annuity is that the amount of the payment to the customer is not guaranteed. Variable annuities are designed to allow individuals to invest in various underlying investment options, which means their value can fluctuate based on market performance. As a result, the income received from a variable annuity will vary depending on the performance of the investments chosen. In the case of a straight-life payout, the payments continue for the lifetime of the annuity holder, but the amount received each period can change. This variability stems from the fact that the principal is invested in markets, and thus the payout is subject to the market's ups and downs. Unlike fixed annuities, which provide guaranteed payouts, variable annuities inherently involve investment risks that affect the payment amounts. Provisions like guaranteed minimum withdrawals may exist in some variable annuity contracts, but these features do not alter the inherent nature of the payouts depending on market conditions. Therefore, it is crucial to understand that while an investor could potentially earn higher returns, the amount they receive is not guaranteed, setting it apart from fixed payout options.

9. In the liquidation of a limited partnership, who is the first to receive the distribution of assets?

- A. Limited partners**
- B. Secured creditors**
- C. General creditors**
- D. General partners**

In the liquidation of a limited partnership, secured creditors are the first to receive the distribution of assets. This hierarchy of claims is established to protect those lenders who have provided funding against tangible assets of the partnership. Secured creditors hold a legal right to specific assets that have been designated as collateral for debts owed by the partnership. Therefore, in the event of liquidation, they are prioritized in receiving payment to mitigate their risk associated with the financing they extended. Limited partners and general creditors generally receive distributions only after secured creditors have been fully paid. Limited partners, in particular, are typically last in line, as their claims are subordinate to those of the creditors. General partners may also be in a position to receive distributions only when all creditor obligations are satisfied, and they have a lower priority than the secured creditors. This structure emphasizes the importance of those who have secured their loans against the partnership's assets, ensuring that their investments are safeguarded before any other claims can be made.

10. What is the market price above which an individual will no longer have an effect on their profit after purchasing and writing calls?

- A. 90**
- B. 95**
- C. 100**
- D. 85**

The market price that defines the threshold above which an individual will no longer have an effect on their profit after purchasing and writing call options is known as the break-even point for their strategy. When writing calls as part of a covered call strategy, the writer generates income through the premium received from selling the calls, which can offset the cost basis of the underlying asset. In this case, the market price of 95 serves as the critical point where the potential gains from the calls written are fully realized, and any movement beyond this price does not affect the profit level generated by the calls. If the underlying asset exceeds this price, the upside profit from the stock is capped by the exercise of the call options sold, and additional price appreciation does not affect profit since the options will be exercised. Therefore, understanding this concept helps traders identify their profit potential and limits based on the premiums received and the price of the underlying asset. In the context of the options market, this pricing strategy emphasizes performing due diligence to appropriately manage risk and reward.

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://stcs7greenlight2.examzify.com>

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