

STC S7 GREENLIGHT 2 PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. 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.
- 2. If a Japanese company is concerned about the appreciation of the U.S. dollar, what should it buy for protection?**
 - A. Yen calls
 - B. Yen puts
 - C. U.S. dollar puts
 - D. U.S. dollar calls
- 3. If an investor makes payments to a variable annuity, what happens when they decide to annuitize?**
 - A. They receive a one-time payment.
 - B. The payments remain the same for the duration of the contract.
 - C. The payments may vary based on performance.
 - D. They can withdraw all their funds at any time.
- 4. When referring to tax implications of investment products, what is a general principle concerning withdrawals?**
 - A. Withdrawals are always tax-free
 - B. Tax implications depend on the type of investment
 - C. All withdrawals are subject to capital gains tax
 - D. All withdrawals are subject to ordinary income tax
- 5. What financial metric is calculated by dividing total liabilities by total equity?**
 - A. Return on investment
 - B. Debt-to-income ratio
 - C. Debt-to-equity ratio
 - D. Current ratio

- 6. A security that has been delisted by the NYSE or Nasdaq?**
- A. May not be traded at all
 - B. Can only be traded through licensed brokers
 - C. May be quoted on the OTC Bulletin Board
 - D. Is automatically considered worthless
- 7. How are the components of the Dow Jones Composite Index ranked based on size?**
- A. Utilities, Transportation, Industrials
 - B. Transportation, Industrials, Utilities
 - C. Industrials, Transportation, Utilities
 - D. Industrials, Utilities, Transportation
- 8. 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
- 9. 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
- 10. At what price should a DEF corporation convertible bond be selling to be at a 10% premium to the common stock?**
- A. 120
 - B. 137.5
 - C. 150
 - D. 160

Answers

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

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Explanations

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1. 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.

2. If a Japanese company is concerned about the appreciation of the U.S. dollar, what should it buy for protection?

- A. Yen calls
- B. Yen puts**
- C. U.S. dollar puts
- D. U.S. dollar calls

In this scenario, if a Japanese company is worried about the appreciation of the U.S. dollar, it should buy yen puts for protection. By purchasing yen puts, the company secures the right to sell yen at a predetermined price. As the U.S. dollar appreciates, it means that the value of yen decreases relative to the dollar. If the exchange rate moves unfavorably for the company, the puts will increase in value, offsetting losses incurred from the exchange rate changes. This strategy effectively hedges against the risk of needing to convert yen into a stronger dollar at a less favorable exchange rate, thus safeguarding the company's financial interests. Such a move ensures that the company can manage its currency risk while engaging in international transactions or maintaining dollar-denominated assets.

3. If an investor makes payments to a variable annuity, what happens when they decide to annuitize?

- A. They receive a one-time payment.
- B. The payments remain the same for the duration of the contract.
- C. The payments may vary based on performance.**
- D. They can withdraw all their funds at any time.

When an investor decides to annuitize a variable annuity, they are converting their investment into a stream of income payments. The payments they receive during the annuitization phase are directly tied to the performance of the underlying investments within the annuity. This means that as the value of the investments fluctuates, the income payments can also vary. The performance of the mutual funds or other investment options chosen within the variable annuity can influence the amount of income the investor receives. If the investments perform well, the payments may increase; conversely, if they perform poorly, the payments could decrease. This characteristic of variable annuities makes them distinct from fixed annuities, where payments remain constant over time. In summary, the nature of variable annuities allows for flexibility in income payments during the annuitization phase, which is a key reason why the correct answer is that the payments may vary based on performance.

4. When referring to tax implications of investment products, what is a general principle concerning withdrawals?

- A. Withdrawals are always tax-free
- B. Tax implications depend on the type of investment**
- C. All withdrawals are subject to capital gains tax
- D. All withdrawals are subject to ordinary income tax

The general principle concerning the tax implications of withdrawals from investment products is that the tax treatment can vary significantly based on the type of investment. Different investment vehicles, such as traditional retirement accounts (like IRAs or 401(k)s), Roth accounts, taxable brokerage accounts, and others, have distinct tax rules regarding withdrawals. For instance, withdrawals from a traditional retirement account are typically subject to ordinary income tax, whereas qualified withdrawals from a Roth account can be tax-free. Additionally, investments held in taxable accounts may incur capital gains tax when securities are sold at a profit. Thus, the correct understanding of tax implications is rooted in the recognition that not all withdrawals are treated the same; they can be influenced by factors such as the investment type, duration of the investment, and specific tax laws applicable at the time of the withdrawal. This nuance is critical for effective tax planning in investment decisions.

5. What financial metric is calculated by dividing total liabilities by total equity?

- A. Return on investment
- B. Debt-to-income ratio
- C. Debt-to-equity ratio**
- D. Current ratio

The financial metric calculated by dividing total liabilities by total equity is known as the debt-to-equity ratio. This ratio is a critical indicator of a company's financial leverage and stability. It essentially measures the proportion of a company's funding that comes from debt versus equity. When this ratio is high, it indicates that a company is primarily financed through debt, which can imply higher risk, especially in times of financial instability. Conversely, a lower ratio suggests that a company is less dependent on debt for its funding, which may signal greater financial health and easier access to additional capital. This ratio is an essential tool for investors and analysts as it provides insights into a company's capital structure and the balance between debt and equity financing. It helps assess the risk associated with the company's financial strategy and its ability to meet financial obligations.

6. A security that has been delisted by the NYSE or Nasdaq?

- A. May not be traded at all
- B. Can only be traded through licensed brokers
- C. May be quoted on the OTC Bulletin Board**
- D. Is automatically considered worthless

A security that has been delisted from the NYSE or Nasdaq can indeed still find a place in trading markets, particularly through platforms like the OTC Bulletin Board. When a security is delisted, it generally means that it no longer meets the exchange's listing requirements, but it does not equate to the complete abandonment of trading opportunities. The OTC Bulletin Board is an electronic trading platform for securities that are not listed on major exchanges. It allows investors to trade delisted securities, although it typically involves different regulations and may have less visibility than traditional exchanges. This aspect of trading provides liquidity and trading opportunities for investors interested in continuing transactions with such securities, even though they may face increased risks associated with lower regulatory oversight and potentially less available information about these investments. The other options imply stricter restrictions or consequences, such as preventing any trading at all or rendering the security worthless, which does not accurately reflect the typical situations of delisted securities. Hence, recognizing that these securities can still be traded on the OTC market highlights the nuanced reality of financial markets.

7. How are the components of the Dow Jones Composite Index ranked based on size?

- A. Utilities, Transportation, Industrials
- B. Transportation, Industrials, Utilities
- C. Industrials, Transportation, Utilities**
- D. Industrials, Utilities, Transportation

The components of the Dow Jones Composite Index are ranked based on size according to the sector's weight within the overall index. In this case, the correct ranking is Industrials, Transportation, and then Utilities. Industrials encompass a diverse range of large-cap companies that typically have a significant influence on the economy, such as manufacturing and construction firms. This sector is usually the largest by market capitalization, reflecting the prominence of its companies. Transportation follows as it includes major companies involved in the movement of goods and people, such as airlines, railroads, and shipping companies. While still substantial, the market capitalization of transportation companies generally comes second when looking at the overall weight within the index. Utilities represent companies that provide essential services like water, electricity, and natural gas. These firms usually have a lower market cap compared to the industrial and transportation sectors, resulting in their placement as the smallest group within the index. This understanding of how the sectors are ranked helps clarify the composition of the index and its overall market impact.

8. 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,

9. 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.

10. At what price should a DEF corporation convertible bond be selling to be at a 10% premium to the common stock?

- A. 120
- B. 137.5**
- C. 150
- D. 160

*To determine the price at which DEF corporation's convertible bond should sell to be at a 10% premium to the common stock, one needs to first understand the relationship between the bond's price and the underlying stock price. If the bond is selling at a 10% premium, it means that the bond's price exceeds the stock price by 10%. This can be visualized by establishing the stock price and calculating the relevant premium. Assuming the common stock price is represented as 'X', then a 10% premium on the common stock can be calculated as follows: - A 10% increase over 'X' would equate to the bond price being $1.1 * X$. If we take one of the potential answers, 137.5, for example, and reverse-engineer it, we can estimate what the corresponding stock price would be: - If the bond price is 137.5, dividing this by 1.1 gives us the underlying stock price, which would be approximately 125. In this context, when you calculate the bond price at a 10% premium relative to the stock price (if the stock price is known), you discover that 137.5 aligns perfectly with the calculated premium*

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!

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