FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA) 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. If an investor has purchased a bond with a 5% coupon, what is the annual interest they will receive?

A. $50 semiannual interest payments

B. $50 interest payable at maturity

C. $5 annual interest until maturity

D. $50 annual interest until maturity

2. What rights do shareholders of common stock enjoy?

A. Unlimited liability and voting rights

B. Limited liability and voting rights

C. Neither liability nor voting rights

D. No liability and no voting rights

3. Which of the following correctly describes the nature of a corporate bond offering?

A. Only public offerings are allowed

B. Only private offerings are allowed

C. Both public and private offerings are permissible

D. Offerings are based on the issuing company size

4. What is the role of a market maker in a stock exchange?

A. To provide liquidity by consistently buying and selling

B. To evaluate and underwrite new stock issues

C. To execute trades on behalf of clients

D. To manage the transfer of stock ownership between parties

5. A customer is an officer of a company that is involved in significant changes. Which of the following items is NOT considered inside information if shared with his registered representative?

A. Pending transactions

B. Declared stock dividend

C. Top management changes

D. Imminent financial liquidity problems

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6. What happens when the market price exceeds the strike price of a put option?

A. It's in the money

B. It's at the money

C. It's out of the money

D. It's at parity

7. The Securities Act of 1933 primarily aims to achieve what objectives?

A. Regulate secondary trading

B. Inform public investors and prevent misrepresentation

C. Establish investment companies

D. Create the SEC

8. Which risk affects all borrowers issuing bonds, regardless of the currency they use?

A. Credit risk

B. Currency risk

C. Interest rate risk

D. Liquidity risk

9. Which of the following statements is true about all US government agency issues?

A. They are exempt from federal taxes

B. They are exempt from registration under the securities act of 1933

C. They are issued in bearer form only

D. They are general obligations of the federal government

10. A registered rep who wants to replace a mutual fund advertisement must obtain written approval from which of the following parties?

A. FINRA

B. Each state's securities administrator

C. A registered principal of the RR's firm

D. The investment management division of the appropriate regional SEC office

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Answers

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

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Explanations

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1. If an investor has purchased a bond with a 5% coupon, what is the annual interest they will receive?

A. $50 semiannual interest payments

B. $50 interest payable at maturity

C. $5 annual interest until maturity

D. $50 annual interest until maturity

When an investor purchases a bond with a 5% coupon rate, this percentage represents the annual interest paid to the bondholder based on the bond's face value, typically $1,000 unless otherwise specified. To calculate the actual dollar amount of the annual interest, you multiply the coupon rate by the face value of the bond. For example, with a 5% coupon on a standard $1,000 bond, the annual interest would be calculated as follows: 5% of $1,000 = 0.05 × 1,000 = $50. Thus, the investor would receive $50 each year until the bond matures. This means that the option indicating $50 annual interest until maturity correctly reflects the nature of coupon payments for a bond, which are received regularly as stipulated. Understanding this helps clarify the mechanics of bond investments, where the coupon or interest represents the income generated from holding the bond, making it a key factor for investors.

2. What rights do shareholders of common stock enjoy?

A. Unlimited liability and voting rights

B. Limited liability and voting rights

C. Neither liability nor voting rights

D. No liability and no voting rights

Shareholders of common stock enjoy limited liability and voting rights. Limited liability means that the personal assets of shareholders are protected; they can only lose the amount they have invested in the company, and they are not personally liable for the corporation's debts. This structure encourages investment, as it mitigates the financial risks associated with ownership. Voting rights allow common shareholders to participate in key decisions of the company, such as the election of the board of directors and major corporate actions like mergers or amendments to the corporate charter. This empowerment ensures that shareholders have a voice in how the company is run and can influence its management. The other options suggest that shareholders have either unlimited liability or no voting rights, which does not align with the nature of common stock ownership where protection from personal liability is a fundamental characteristic, and voting rights are a standard privilege granted to these shareholders.

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3. Which of the following correctly describes the nature of a corporate bond offering?

A. Only public offerings are allowed

B. Only private offerings are allowed

C. Both public and private offerings are permissible

D. Offerings are based on the issuing company size

The correct answer highlights that both public and private offerings of corporate bonds are permissible under U.S. securities regulations. Corporate bonds can be issued through a public offering where the bonds are sold to the general public and are typically registered with the Securities and Exchange Commission (SEC). This process allows the bonds to be traded in the secondary market, providing liquidity to investors. Additionally, companies may opt for private offerings, where the bonds are sold directly to a select group of investors, often institutional, without the same disclosure requirements as public offerings. This route can be less costly and quicker due to reduced regulatory burdens. Therefore, the flexibility for corporations in choosing their method of offering is essential for financing strategies, making the statement that both public and private offerings are permissible accurate and comprehensive. The other choices inaccurately constrain the options available to corporations, overlooking the combination of methods available for raising capital through bond offerings.

4. What is the role of a market maker in a stock exchange?

A. To provide liquidity by consistently buying and selling

B. To evaluate and underwrite new stock issues

C. To execute trades on behalf of clients

D. To manage the transfer of stock ownership between parties

The role of a market maker in a stock exchange is primarily to provide liquidity by consistently buying and selling securities. Market makers facilitate trading by being willing to buy or sell stocks at any given time, effectively maintaining a market for those securities. This activity helps to ensure that there are always buyers and sellers available for a stock, which reduces the bid-ask spread and allows for smoother and more efficient transactions. By standing ready to make transactions, market makers contribute to the overall stability and efficiency of the market, making it easier for investors to execute trades without significant price fluctuations. In contrast, the other options represent different functions that do not align with the primary responsibilities of a market maker. Evaluating and underwriting new stock issues pertains to investment banking rather than market making. Executing trades on behalf of clients describes the role of brokers, who facilitate transactions for investors but do not provide liquidity like market makers do. Managing the transfer of stock ownership involves settlement processes following trades, which are handled by clearinghouses and other market infrastructure, rather than by the market makers themselves.

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5. A customer is an officer of a company that is involved in significant changes. Which of the following items is NOT considered inside information if shared with his registered representative?

A. Pending transactions

B. Declared stock dividend

C. Top management changes

D. Imminent financial liquidity problems

The declared stock dividend is not considered inside information when shared with a registered representative. Inside information typically refers to material information that has not been made public and could influence an investor's decision or affect the stock price. A declared stock dividend is information that a company's board has formally announced and made public. Once declared, this information is accessible to all shareholders and potential investors, who can use it in their decision-making process. On the other hand, pending transactions, top management changes, and imminent financial liquidity problems are all examples of non-public, material information. This type of information could significantly impact the financial standing or stock performance of a company if disclosed, and therefore would generally be classified as inside information. Sharing such details with anyone who does not have a duty to maintain confidentiality, including a registered representative, could lead to regulatory violations and implications for insider trading.

6. What happens when the market price exceeds the strike price of a put option?

A. It's in the money

B. It's at the money

C. It's out of the money

D. It's at parity

When the market price exceeds the strike price of a put option, the appropriate classification is that the put option is "out of the money." This means that exercising the option would not be beneficial, as the holder would not be able to sell the underlying asset at a price higher than the current market price. In such a scenario, the put option has no intrinsic value because the holder does not gain any advantage from selling the asset at the higher strike price compared to the market price. In contrast, if the market price were equal to the strike price, the option would be considered "at the money," and if the market price was below the strike price, then the option would be classified as "in the money." The term "at parity," which refers to a situation where the market price of the underlying asset and the strike price yield an equal value for the option, typically applies in contexts involving call options or other financial assets, but it does not appropriately describe the relationship of a put option under these circumstances.

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7. The Securities Act of 1933 primarily aims to achieve what objectives?

A. Regulate secondary trading

B. Inform public investors and prevent misrepresentation

C. Establish investment companies

D. Create the SEC

The primary objectives of the Securities Act of 1933 focus on ensuring that investors receive significant information regarding securities being offered for public sale, thereby preventing misrepresentation. This act mandates that companies disclose pertinent financial information to the public before issuing securities, which helps to create transparency in the marketplace. By requiring this disclosure, the act aims to enhance the integrity of the securities market and protect investors from fraudulent activities. As a direct response to the market abuses and lack of information that led to the stock market crash of 1929, the act built a foundation for trust in the securities industry. Other options address aspects related to the broader regulatory framework of the financial markets rather than the core focus of the Securities Act of 1933. For instance, while regulating secondary trading is important, it is more relevant to later regulations, such as those encompassed by the Securities Exchange Act of 1934. Establishing investment companies falls under other legislation that governs the mutual fund industry, and while the Securities Exchange Act of 1934 did create the Securities and Exchange Commission (SEC) to oversee securities activities, the primary purpose of the 1933 Act is to establish rules surrounding the initial offer of securities to the public, emphasizing transparency and the prevention of misinformation.

8. Which risk affects all borrowers issuing bonds, regardless of the currency they use?

A. Credit risk

B. Currency risk

C. Interest rate risk

D. Liquidity risk

Credit risk is a fundamental risk that affects all borrowers issuing bonds, regardless of the currency used. This risk pertains to the possibility that a borrower will fail to make the required payments on their debt obligations, which includes both interest and principal repayments. All bond issuers, whether they are sovereign nations, corporations, or municipalities, are subject to scrutiny regarding their ability to meet these obligations. Factors such as the issuer's financial health, creditworthiness, and overall economic conditions play a significant role in determining their credit risk. Since this risk is inherent to the borrowing process, it is applicable across different currencies and does not change with the fluctuations in foreign exchange rates or interest rates. Other types of risks, such as currency risk and interest rate risk, can affect bonds issued in specific currencies or under particular market conditions. Liquidity risk, on the other hand, pertains to the ease of buying or selling the bond in the market. Thus, credit risk stands out as the universal risk affecting all bond issuers, making it the most pertinent choice in this context.

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9. Which of the following statements is true about all US government agency issues?

A. They are exempt from federal taxes

B. They are exempt from registration under the securities act of 1933

C. They are issued in bearer form only

D. They are general obligations of the federal government

The statement that US government agency issues are exempt from registration under the Securities Act of 1933 is accurate. Many government agency securities, which may include bonds issued by entities like Fannie Mae or Freddie Mac, do not require registration with the Securities and Exchange Commission (SEC). This exemption creates a streamlined process for agencies to raise funds, as registration can be time-consuming and costly. While some government agency securities may provide tax benefits, not all are exempt from federal taxes. It's important to recognize that the tax-exempt status can vary depending on the specific agency and the nature of the securities. Additionally, agency bonds may be issued in various forms, including bearer and registered forms, so the statement about bearer form exclusively is not universally applicable. Finally, although many agency securities may have the backing of the federal government, they are not necessarily general obligations of the federal government. Instead, they are backed by the revenue generated by the issuing agency.

10. A registered rep who wants to replace a mutual fund advertisement must obtain written approval from which of the following parties?

A. FINRA

B. Each state's securities administrator

C. A registered principal of the RR's firm

D. The investment management division of the appropriate regional SEC office

The requirement for a registered representative to obtain written approval from a registered principal of the firm when replacing a mutual fund advertisement is grounded in the rules that govern the supervision and compliance processes within a financial firm. A registered principal has the responsibility to oversee the activities of registered representatives, ensuring that all communications and advertisements meet regulatory standards and comply with the firm's policies. This approval process is integral to maintaining investor protection, as it helps ensure that any advertising and promotional materials are fair, balanced, and not misleading. The registered principal's role is to evaluate the content for adherence to applicable regulations, which includes considerations set forth by FINRA and other securities laws. While other entities, such as FINRA or state securities administrators, play crucial roles in regulating the financial markets, the specific act of approving internal advertisements falls under the purview of a registered principal within the firm. The principal's knowledge of the firm's policies and the relevant regulations allows for effective oversight.

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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://finra.examzify.com

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

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