



# FINRA

## SERIES-6 Exam

### Uniform Securities State Law Examination

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### Question: 1

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Which of the following statements about the over-the-counter market is true?

- A. Only penny stocks are traded in the over-the-counter market.
- B. Trades in the over-the-counter market are conducted via the auction process.
- C. Only bonds and other debt instruments are traded in the over-the-counter market.
- D. Stocks that are listed on exchange floors are also traded in the over-the-counter market.

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**Answer: D**

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Explanation:

Stocks that are listed on exchange floors are also traded in the over-the-counter market. The term "third market" refers to over-the-counter trading of listed stocks. All types of securities—stocks, bonds, options, warrants, rights—trade over the counter. The over-the-counter market is a negotiated market, not an auction market.

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### Question: 2

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Which of the following is not an auction market?

- A. NASDAQ
- B. NYSE
- C. CHX
- D. All of the above are auction markets

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**Answer: A**

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Explanation:

NASDAQ is not an auction market. NASDAQ is a computerized system of geographically dispersed securities' dealers. As such, it is a negotiated market. The NYSE (New York Stock Exchange) and the CHX (Chicago Stock Exchange) are both auction markets.

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### Question: 3

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The entity that serves as the auctioneer for trades conducted on an organized exchange floor is known as a:

- A. registered trader.
- B. specialist.
- C. floor broker.
- D. commission broker.

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**Answer: B**

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Explanation:

The entity that serves as the auctioneer for trades conducted on an organized exchange floor is known as a specialist. The specialist is assigned stocks by the exchange and is a market maker in those stocks. A registered trader is a private individual who buys and sells on his own account only. Floor brokers and commission brokers execute trades for other investors.

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**Question: 4**

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Which of the following statements about specialists is false?

- A. Specialists are market makers in assigned stocks and, as such, can profit from these investments.
- B. Specialists are required to maintain a fair and orderly market in their assigned stocks, meaning that they must buy if there is an excess of sell orders and sell out of their own portfolios if there is an excess of buy orders.
- C. Specialists are employees of the exchange on which they oversee trades.
- D. In addition to acting as market makers, specialists also act as agents and execute limit orders placed by commission brokers for their clients if the specified price is reached.

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**Answer: C**

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Explanation:

The statement that specialists are employees of the exchange on which they oversee trades is false. Specialists are separate firms that are members of the exchange. Specialists are market makers in the stocks that are assigned them by the exchange and can earn profits (or losses) on these investments, just like any other market maker. They are required to maintain a fair and orderly market in their assigned stocks, however, which means they sometimes must trade against the market. They also maintain a central limit order "book" in their assigned stocks.

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**Question: 5**

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NASDAQ market makers provide investors with assurance that:

- A. there is a market for the listed security.
- B. the investor will be able to buy or sell the security at a price he desires.
- C. the investor will be investing in a high quality investment with relatively low risk.
- D. NASDAQ market makers provide investors with no assurance whatsoever. It is "buyer beware."

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**Answer: A**

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Explanation:

NASDAQ market makers provide investors with assurance that there is a market for the listed security by posting bid and ask prices for it. There is no guarantee, however, that the investor will be able to buy or sell the security at the price he desires or that the investment is high quality and low risk.

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**Question: 6**

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SuperDOT is:

- A. an electronic communication network (ECN).
- B. an electronic system whereby trades are executed on NASDAQ.
- C. an electronic system used to place orders on the NYSE.
- D. both A and C.

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**Answer: C**

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Explanation:

SuperDOT is an electronic system used to place market and limit orders on the NYSE whereby the orders are routed directly to the specialist in the assigned stocks. It is not an ECN, which is an electronic network that is designed to allow buyers and sellers to interact directly with each other, thereby bypassing the middlemen.

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**Question: 7**

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GoForBroke Investments has registered with the SEC to be a market maker in certain NASDAQ-listed securities. In order to be able to enter bid and ask quotes for the securities in which it is going to make a market, GoForBroke must subscribe to which level of NASDAQ?

- A. Level I
- B. Level II
- C. Level III
- D. Level IV

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**Answer: C**

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Explanation:

In order to enter bid and ask quotes, GoForBroke must subscribe to NASDAQ's Level II. Level I simply allows the user to view the highest bid and lowest ask price for a security, and Level II allows the user to view all the bid and ask quotes from all the market makers in a security, but only Level III allows the subscriber to enter quotes. There is no Level IV.

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**Question: 8**

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Which of the following is not a characteristic of all auction stock exchanges in the U.S.?

- A. There is a central marketplace.
- B. Stocks that are traded on the exchange must meet certain listing requirements, determined by the exchange.
- C. In order to conduct a trade on the exchange, a broker must be a member of the exchange or hold a license to trade on the exchange.
- D. If a stock is listed on one of these exchanges, it is not permitted to be listed on any other exchange.

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**Answer: D**

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Explanation:

The statement that does not describe a characteristic of all U.S. auction stock exchanges is D. Dual listing is permitted. Stocks listed on one exchange may also be listed on another. In fact, most of the trading on U.S. regional exchanges is in dual-listed stocks. All of the auction exchanges do have a central marketplace, listed stocks must meet listing requirements, and brokers wishing to conduct trades on the exchange must be members of the exchange or hold a license to trade on the exchange.

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**Question: 9**

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Which of the following is an example of a primary market transaction?

- A. Exco Resources (XCO) sells a new issue of 7.5%, 8-year notes.
- B. Ms. Talker calls her broker and places a market order to sell shares of AT&T (T) on the NYSE.
- C. Mr. Safe purchases a Treasury bill with two weeks remaining to maturity.
- D. Mr. Green places an order to buy shares of Sunvalley Solar, Inc. (SSOL), a stock selling on the OTC Bulletin Board.

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**Answer: A**

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Explanation:

Exco Resources' new bond issue is a primary market transaction. The primary market refers to the market for new issues. The other three scenarios describe transactions in securities that are already being traded and are secondary market transactions.

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**Question: 10**

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NASDAQ is:

- A. an acronym for Norway's major stock exchange.
- B. the government organization that insures accounts at U.S. brokerage firms.
- C. a computerized system that links together the U.S. regional exchanges.
- D. a computerized quotation system used in the over-the-counter market.

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**Answer: D**

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Explanation:

NASDAQ is a computerized quotation system that is used in the over-the-counter market. It allows NASDAQ market makers to enter bid and ask quotes and allows subscribers at lower levels to view the bid and ask quotes available.

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**Question: 11**

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All government bonds and the majority of corporate bonds are traded:

- A. on the floor of the NYSE.
- B. via electronic communication networks (ECNs).
- C. on regional exchanges.
- D. in the over-the-counter market.

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**Answer: D**

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Explanation:

All government bonds and the majority of corporate bonds are traded in the over-the-counter market.

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**Question: 12**

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Which of the following types of securities would not be traded in the over-the-counter market?

- I. stock options
- II. government bonds
- III. corporate bonds
- IV. corporate stocks

- A. I only
- B. I and IV only
- C. III and IV only
- D. All of the choices are traded in the over-the-counter market.

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**Answer: D**

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Explanation:

All of the choices listed and more are traded in the over-the-counter market: stock options, government bonds, corporate bonds, and corporate stocks. Additionally, securities such as warrants, rights, forward contracts, and foreign currencies also trade in the over-the-counter market.

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**Question: 13**

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Which of the following are duties of the specialist on an exchange floor?

- I. executing limit orders if/when the limit price specified is reached
- II. minimizing any imbalance in supply and demand for the stock(s) that the specialist is assigned
- III. determining an opening price for each assigned stock every day
- IV. serving as an auctioneer for the shares of the assigned stocks

- A. I and II only
- B. I, II, and IV only
- C. I and IV only
- D. I, II, III, and IV

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**Answer: D**

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Explanation:

All of the choices listed are duties of the specialist on an exchange floor. The specialist maintains a limit order "book" and executes those orders if/when the limit price is reached. The specialist is also charged with maintaining a fair and orderly market in the assigned securities, which means trading on his own account to ensure that the supply and demand of the stock's shares match. Additionally, the specialist is responsible for setting the opening price for the assigned stock each day and for serving as the auctioneer for the shares of the stock.

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**Question: 14**

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The price at which an investor can sell a security to a market maker in the over-the-counter market is called the:

- A. sale price.
- B. put price.
- C. bid price.
- D. ask price.

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**Answer: C**

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Explanation:

An investor can sell a security to a market maker in the over-the-counter market at the bid price, which is the price at which the market maker is willing to buy the security.

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**Question: 15**

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Mary is interested in buying shares of the Lambchops Corporation, which sells over-the-counter. The market maker with the best bid price--\$3.15--is Veggie Investments. The market maker with the best ask price--\$3.27--is Carnivor Investments. Mary conducts trades in NYSE-listed stocks through her broker, Omnivor and Associates.

Given this scenario, which of the following statements is true?

- A. Mary can buy shares of Lambchops Corporation at the bid price of \$3.15 by contacting Veggie Investments directly.
- B. Mary can buy shares of Lambchops Corporation at the ask price of \$3.27 by contacting Carnivor Investments directly.
- C. Mary can buy shares of Lambchops Corporation at the bid price of \$3.15 by contacting Omnivor and Associates.
- D. Mary can buy shares of Lambchops Corporation at the ask price of \$3.27 by contacting Omnivor and Associates.

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**Answer: D**

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Explanation:

Mary can buy shares of Lambchops Corporation for \$3.27 from the market maker with the best ask price, Carnivor, by contacting her broker, Omnivor and Associates, which will execute the transaction.

The ask price is the price at which market makers in the over-the-counter market are willing to sell the stock, and over-the-counter transactions, like NYSE transactions, are executed by brokers.

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**Question: 16**

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Noah Mete is interested in selling his shares of the Lambchops Corporation, which trades over-the-counter. The market maker with the best bid price--\$3.15--is Veggie Investments. The market maker with the best ask price--\$3.27--is Carnivor Investments. Noah conducts trades in NYSE-listed stocks through his broker, Omnivor and Associates.

Given this scenario, which of the following statements is true?

- A. Noah can sell his shares of Lambchops Corporation at the bid price of \$3.15 by contacting Veggie Investments directly.
- B. Noah can sell his shares of Lambchops Corporation at the ask price of \$3.27 by contacting Carnivor Investments directly.
- C. Noah can sell his shares of Lambchops Corporation at the bid price of \$3.15 by contacting Omnivor and Associates.
- D. Noah can sell his shares of Lambchops Corporation at the ask price of \$3.27 by contacting Omnivor and Associates.

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**Answer: C**

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Explanation:

Noah can sell his shares of Lambchops Corporation for \$3.15 from the market maker with the best bid price, Veggie, by contacting his broker, Omnivor and Associates, which will execute the transaction. The bid price is the price at which market makers in the over-the-counter market are willing to buy the stock, and over-the-counter transactions, like NYSE transactions, are executed by brokers.

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**Question: 17**

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Which of the following represents a secondary market transaction?

- A. An investor buys Treasury bills in the regular Monday auction.
- B. An investor buys 300 shares of Electromed (ELMD) at its IPO offer price of \$4.00 a share.
- C. An investor sells her shares of Sunvalley Solar, Inc. (SSOL), which sells on the OTC Bulletin Board for \$0.059 a share.
- D. A home buyer obtains a mortgage through his savings and loan.

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**Answer: C**

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Explanation:

Explanation: When an investor sells her shares of Sunvalley Solar that is listed on the OTC Bulletin Board, it is a secondary market transaction since shares are being bought and sold between investors. All the other selections involve a new issue of securities, which makes them primary market transactions.



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**Question: 18**

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Which of the following statements about primary market transactions is true?

- A. A primary market transaction is defined as a transaction that is executed on either the NYSE or NASDAQ. Transactions that take place on ECNs are secondary market transactions.
- B. In a primary market transaction, the issuer of the security receives the proceeds from the sale of the security.
- C. A primary market transaction refers to the trading of stocks; a secondary market transaction is defined as a transaction that involves bonds.
- D. Both A and B are true statements.

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**Answer: B**

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Explanation:

In a primary market transaction, the issuer of the security receives the proceeds from the sale of the security. A secondary market transaction involves the purchase and sale of a security between investors, and the seller of the security receives the proceeds from the sale. Both stocks and bonds are initially introduced to the market as primary market securities and are then traded in the secondary market.

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**Question: 19**

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A new issue of common stock can be classified in which of the following categories?

- I. primary market
- II. money market
- III. secondary market
- IV. capital market

- A. I only
- B. III only
- C. I and IV only
- D. II and III only

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**Answer: C**

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Explanation:

Only Selections I and IV are correct. A new issue of common stock will be sold in the primary market. It is also a capital market security since it has no maturity, and capital market securities are securities with greater than one year to maturity.

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**Question: 20**

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Which of the following securities would be exempt from SEC registration requirements?

- I. a 15-year bond issued by the state of Colorado
- II. an issue of preferred stock that has an aggregate par value of \$5 million
- III. an issue of commercial paper that has a 5-month maturity

- A. I only
- B. III only
- C. I and III only
- D. I and II only

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**Answer: C**

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Explanation:

Only Selections I and III are exempt from SEC registration requirements. The bond issued by Colorado is exempt because bonds issued by a government body are exempt from registration. The issue of commercial paper is exempt because securities with less than 270 days to maturity are exempt from registration.

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