



## The Secondary Market

1. The American Stock Exchange is most commonly noted for which of the following securities that trade there?
  - I. Oil and gas companies
  - II. Foreign stocks
  - III. Options
  - IV. Dually listed NYSE stocks

A. I and III

B. I, II, and III

C. I, III, and IV

D. IV only
2. Which of the following situations constitutes a dual listing for an underlying security?
  - A. A stock listed on the NYSE and the AMEX.
  - B. A stock listed on the NYSE and the OTC.
  - C. A stock listed on the NYSE and a regional exchange.
  - D. All the above choices represent a dual listing.

### Quick Check

Quick Answer: **30**

Detailed Answer: **31**

Quick Answer: **30**

Detailed Answer: **31**

**Quick Check**

3. Which of the following exchanges is representative of a major exchange in the United States?

I. NYSE

II. AMEX

III. OTC

IV. Regional exchanges

A. I only

B. I and II

C. I, II, and III

D. All of the above

4. The National Association of Securities Dealers (NASD) enforces the rules and regulations for which of the following exchanges?

I. The NYSE

II. The AMEX

III. The OTC

IV. The CBOE

A. I only

B. I, II, and III

C. III only

D. III and IV

5. The Over-the-Counter market is set up as which of the following types of markets?

A. An auction market

B. A negotiated market

C. A specialist market

D. A regional market

6. If a broker/dealer in Tokyo, Japan, wants to buy 1000 shares of General Motors when the NYSE is closed, where can he get his order filled?

A. He would have to wait for the NYSE to open for business to get his order filled.

B. He could go to the first market of the secondary market.

C. He could go to the second market of the secondary market.

D. He could go to the third market of the secondary market.

Quick Answer: **30**

Detailed Answer: **31**

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 **Quick Check**

7. An NYSE member firm receives an order from a trader in London at 7:00 p.m. New York time to purchase 500 shares of IBM at the best possible price immediately. Which of the following scenarios best describes what the NYSE member could do in handling the trade?
- A. He would sell the stock out of the inventory account of the firm to the London trader.
  - B. He would not be able to execute the order for the London trader.
  - C. He would go to the specialist who handles IBM for execution.
  - D. He would forward the trade to the Instinet Market.
8. Which of the following statements regarding the Instinet Market are true?
- I. It provides trading between large institutional investors.
  - II. It is registered with the SEC as a stock exchange.
  - III. It was created to save on brokerage commissions.
  - IV. It is part of the fourth market of the secondary market.
- A. I only
  - B. I and III
  - C. I, II, and III
  - D. I, II, III, and IV
9. A broker/dealer that sells a security out of its own inventory to a customer in the OTC market is acting as a what?
- A. Broker
  - B. Account executive
  - C. Dealer
  - D. Trader

Quick Answer: **30**Detailed Answer: **31**Quick Answer: **30**Detailed Answer: **31**Quick Answer: **30**Detailed Answer: **31**

**Quick Check**

10. Which of the following statements are true regarding Over-the-Counter broker/dealers?
- I. All broker/dealers maintain an inventory of every Over-the-Counter security.
  - II. A majority of initial public offerings are brought to the market by OTC brokers.
  - III. All broker/dealers must be a member of the NASD.
  - IV. They can only sell securities for which they are a market maker to their customers.
- A. I and IV
  - B. II and III
  - C. I, III, and IV
  - D. I, II, III, and IV
11. The Maloney Act of 1938 was designed to regulate which of the following exchanges?
- A. NYSE
  - B. AMEX
  - C. CBOE
  - D. OTC
12. The NASD was created by the approval of which of the following entities?
- A. NYSE
  - B. Securities and Exchange Commission
  - C. Federal Reserve Board
  - D. U.S. Treasury
13. Securities that do not meet the listing requirements of the NASDAQ system have their quoted prices printed in what?
- A. Yellow sheets
  - B. Pink sheets
  - C. Blue sheets
  - D. The *Wall Street Journal*

Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**

 **Quick Check**

14. When an Over-the-Counter broker/dealer executes an order for its client, which of the following information is required on the confirmation that is sent to the client?
- I. The price of the security
  - II. The role the broker/dealer acted as
  - III. The commission, if any, that was charged
  - IV. The name of the security that was bought or sold
- A. I and II
  - B. I, II, and III
  - C. I, III, and IV
  - D. I, II, III, and IV
15. The highest price that an individual is willing to pay for an OTC stock is known as what?
- A. Bid
  - B. Ask
  - C. Spread
  - D. Markup
16. The lowest price at which an individual is willing to sell a security in the OTC market is known as what?
- A. Bid
  - B. Ask
  - C. Spread
  - D. Markdown
17. Stocks that have a wide spread in the market are considered securities that have which of the following characteristics?
- A. High volume and widely traded
  - B. Low volume and thinly traded
  - C. High volume and thinly traded
  - D. Low volume and widely traded
18. The Security Act of 1934 was established to regulate all the following actions except what?
- A. Requires all nonexempt securities to be registered with the SEC
  - B. Prohibits the manipulation of a stock's price
  - C. Requires that all exchanges and members register with the SEC
  - D. Establishes regulations that govern margin accounts

Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**Quick Answer: **30**Detailed Answer: **32**

**Quick Check**

19. The Securities and Exchange Commission was created to regulate the securities industry under which of the following acts of government legislation?
- A. Securities Act of 1933
  - B. Securities Act of 1934
  - C. Trust Indenture Act of 1939
  - D. Maloney Act of 1938
20. Which of the following statements are true regarding the regulation of margin accounts in the brokerage industry?
- I. Margin is the amount that a customer must deposit with his or her broker when purchasing securities in a margin account.
  - II. Margin is the amount that a customer can borrow in his or her margin account when purchasing securities.
  - III. Regulation T covers the extension of credit to customers by brokers, dealers, and members.
  - IV. Regulation U covers the limit on the amount of credit that a bank may extend a customer to purchase margined securities.
- A. I only
  - B. II and III
  - C. I, III, and IV
  - D. I, II, III, and IV
21. The short sale rule under the Act of 1934 states that all the following are true except what?
- A. The Regulation T requirement on a short sale is 50%.
  - B. A short sale can only happen on a minus tick.
  - C. A short sale can happen on a plus tick or a zero plus tick.
  - D. The customer must borrow stock when selling short.
22. Tom Gordon enters an order with his broker to sell short 100 shares of QVC. Which of the following trades will trigger his short sale of QVC stock?
- 33 1/8...33...33 1/4 ...33 1/4 ...33 1/2 sld...33 5/8...33 3/8...
- A. 33 1/8
  - B. 33
  - C. 33 1/4
  - D. 33 1/2 sld

Quick Answer: **30**  
Detailed Answer: **32**

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Quick Answer: **30**  
Detailed Answer: **33**

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 **Quick Check**

23. Which of the following entities is not required to register with the SEC?

- A. The AMEX
- B. An NYSE member firm
- C. GNMA
- D. A stockbroker

Quick Answer: **30**

Detailed Answer: **33**

24. The authority to establish margin requirements was given to which of the following entities under the Securities Act of 1934?

- A. NYSE
- B. NASD
- C. FRB
- D. SEC

Quick Answer: **30**

Detailed Answer: **33**

25. Rule 10-B-5 under the Insider Trading and Enforcement Act of 1988 states which of the following to be true?

- A. Mutual funds can charge shareholders for advertising costs incurred.
- B. It limits the definition of insiders to officers and directors only.
- C. It is considered a catch-all fraud rule.
- D. If convicted of fraud, an individual could receive a maximum of 10 years and a minimum of 5 years in jail.

Quick Answer: **30**

Detailed Answer: **33**

## Quick Check Answer Key

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|-------|-------|
| 1. B  | 14. D |
| 2. C  | 15. A |
| 3. B  | 16. B |
| 4. C  | 17. B |
| 5. B  | 18. A |
| 6. D  | 19. B |
| 7. B  | 20. C |
| 8. D  | 21. B |
| 9. C  | 22. C |
| 10. B | 23. C |
| 11. D | 24. C |
| 12. B | 25. C |
| 13. B |       |



## Answers and Explanations

1. **Answer B is correct.** The AMEX is most noted for its listing of oil and gas companies, foreign stocks, and options. A dually listed NYSE security cannot be listed on the NYSE and AMEX, but rather would be on the NYSE and a regional exchange.
2. **Answer C is correct.** Dually listed securities can only be listed on a major exchange such as the NYSE and one of the numerous regional exchanges across the country. A dual listing cannot occur on two major exchanges such as the NYSE and AMEX or the NYSE and the OTC market.
3. **Answer B is correct.** There are only two major exchanges in the United States, the NYSE and AMEX. Both of these exchanges are located in New York and are considered auction markets.
4. **Answer C is correct.** The National Association of Security Dealers (NASD) was created by the SEC specifically to oversee the OTC market.
5. **Answer B is correct.** The OTC is a negotiated market that uses the market maker system with bid and ask prices quoted. The NYSE and AMEX are both known as auction markets that use the specialist system in trading all securities.
6. **Answer D is correct.** Traders around the world who want to purchase NYSE-listed securities when the NYSE is closed have to go to an off-the-floor broker in the third market to get their orders filled. Around 30 million shares per day get filled in the third market.
7. **Answer B is correct.** An order coming from a foreign trader to a NYSE member firm cannot be filled due to the NYSE rules that limit their members to conducting business only during trading hours. They could not sell the stock out of their inventory, nor would they be able to go to the specialist during hours the exchange is not open, to accommodate the foreign trader.
8. **Answer D is correct.** All the statements are true regarding the Instinet Market. It was designed by institutional investors to trade between themselves and to save on commissions that brokers charge, and it is registered as an exchange with the SEC. It is the fourth market of the secondary market.
9. **Answer C is correct.** When a broker/dealer sells stock out of its own inventory, it is acting as a dealer. If it goes to another broker to get the security, it is acting as an agent or broker for the customer. An account executive is another term for a stockbroker, and a trader works on a trading desk.

10. **Answer B is correct.** OTC broker/dealers typically make a market in only a few securities. Most IPOs are brought to the market in the OTC marketplace, due to easier listing requirements. All broker/dealers must be members of the NASD and provide their customers with the security they want to buy or sell regardless of whether they are market makers.
11. **Answer D is correct.** The Maloney Act was created in 1938 as an amendment to the Act of 1934, which was scripted to regulate the Over-the-Counter marketplace.
12. **Answer B is correct.** The NASD was created to regulate the OTC market by the approval of the Securities and Exchange Commission under the Maloney Act of 1938.
13. **Answer B is correct.** OTC stocks that are considered too small to meet NASDAQ listing requirements are printed each day in the pink sheets. The blue sheets list municipal bonds, and the yellow sheets list corporate bonds.
14. **Answer D is correct.** A customer confirm includes the name and price of the security bought or sold, the commission that was charged on the transaction, and the role in which the broker acted.
15. **Answer A is correct.** The highest price that a customer is willing to pay is known as the bid in the negotiated OTC marketplace.
16. **Answer B is correct.** The lowest price at which a seller is willing to sell the security is known as the ask price. The difference between the bid and ask is the spread on the stock.
17. **Answer B is correct.** A stock in the OTC market that has a wide spread is indicative of a security that has little interest and minimal volume. Conversely, the smaller the spread, the more active the security trades in the market.
18. **Answer A is correct.** The Act of 1934 made stock manipulation illegal, required exchanges and members to register with the SEC, and set the rules on margin. Nonexempt securities are required to register with the SEC but under the Security Act of 1933 and not the Act of 1934, as this question suggests.
19. **Answer B is correct.** The Securities and Exchange Commission was officially created under government legislation that was part of the Securities Act of 1934. Many students assume that because the Act of 1933 states that all nonexempt issues must register with the SEC, the SEC was already in existence by the Act of 1933. In fact, it took several years for the new legislation of the Acts of 1933 and 1934 to be fully enforced.

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20. **Answer C is correct.** Again, this is a tricky question. Margin is the amount that a customer must deposit when purchasing securities in a margin account. By definition, it is not the amount that the customer borrows, even though the amounts are the same. Regulation T covers the extension of credit to a customer from a broker, and Regulation U covers the extension of credit from a bank, through what might be considered a secured loan by the pledged securities in a margin account to secure the loan.
  21. **Answer B is correct.** The short sale rule states that a short sale can only happen on a plus tick or a zero plus tick (upward price movement). The customer must borrow the security sold short, and the Regulation T requirement is set at 50%.
  22. **Answer C is correct.** A short sale can only happen on a plus tick or a zero plus tick; thus, the first 33 1/4 represents an increase in the security price, where QVC stock could be shorted at. The 33 1/2 sld is not a denotation of a short sale but rather for a priced trade that is now being reported out of time sequence for QVC stock.
  23. **Answer C is correct.** Government securities are considered exempt from SEC registration. All exchanges such as the NYSE and AMEX must register with the SEC, as well as individuals giving advice to clients such as stockbrokers.
  24. **Answer C is correct.** The establishment of margin was given to the Federal Reserve Bank by the SEC under the Act of 1934. NYSE rules only apply to minimum maintenance in a margin account.
  25. **Answer C is correct.** The 10-b-5 rule was a way for the SEC to create a catch-all definition of what constitutes insider trading and to whom the law applies. Mutual funds that are considered 12-b-1 funds can charge shareholders for advertising, but this point is not applicable to this question. The definition of an insider is an officer, director, or 10% shareholder. The 10-b-5 rule does not suggest that if an individual is convicted of insider trading, he or she receives a set prison sentence.