Financial Industry Certification Preparation and “Teaching to the Test”

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ABSTRACT

This paper addresses two aspects of offering finance certification training programs at the university level. During the spring term 2006, Southern New Hampshire University offered (in conjunction with a large, diversified financial services company) a finance elective course to prepare students to sit for the FINRA Series 7 General Securities Registered Representative Examination. Firstly, the paper provides a brief background on developing a specialized academic course working in cooperation with a corporate entity. Secondly, the paper explores the academic ramifications of delivering the course in a “teaching to the test” format instead of a more typical academic course delivery.

Introduction

The purpose of this paper is to review a novel corporate/university cooperation that was established to prepare university students to sit for the Financial Industry Regulatory Authority (FINRA) Series 7 General Securities Registered Representative Examination. The project took place at the Southern New Hampshire University (SNHU) School of Business in conjunction with a large, diversified financial services company. The impetus for the program came from the financial services company, which was keen to develop a highly qualified pool of potential employees. A second purpose of the paper is to discuss aspects of structuring the course to maximize the probability of passing the exam, so called “teaching to the test”.

The Series 7 certification is required for many jobs in the financial services/brokerage industry, primarily those positions making investment recommendations to customers and handling customer accounts. The examination itself must be completed within six hours and is made up of 250 multiple-choice questions. The exam consists of two three hour sessions, each containing 125 questions (plus 5 additional questions to be considered for future exams in each session). In order to pass the examination, the candidate must score 70%. Topics that are covered in the exam, along with their emphasis are presented in Table 1 (see Fleur (2005a)). Typically, candidates for the examination are trained either directly by the sponsoring financial services company or via self-study. Corporate training programs can run to several hundred hours of study time and instruction. In many cases, the candidate is hired by the financial services company prior to the exam preparation and is usually on the payroll during the exam preparation program. As such, there could be a considerable cost savings to the corporation if employees came to the firm with eligibility for the Series 7 credential in hand.

TABLE 1

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2 FINRA was recently created when the National Association of Securities Dealers (NASD) merged with a related regulatory body.
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>NUMBER OF QUESTIONS</th>
<th>PERCENT WEIGHTING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Securities</td>
<td>10</td>
<td>4%</td>
</tr>
<tr>
<td>Debt Securities</td>
<td>50</td>
<td>20%</td>
</tr>
<tr>
<td>Options</td>
<td>40</td>
<td>16%</td>
</tr>
<tr>
<td>Trading Markets</td>
<td>20</td>
<td>8%</td>
</tr>
<tr>
<td>Customer Accounts</td>
<td>25</td>
<td>10%</td>
</tr>
<tr>
<td>New Issues</td>
<td>15</td>
<td>6%</td>
</tr>
<tr>
<td>Investment Companies</td>
<td>20</td>
<td>8%</td>
</tr>
<tr>
<td>Taxes and Tax Shelters</td>
<td>15</td>
<td>6%</td>
</tr>
<tr>
<td>Regulations</td>
<td>40</td>
<td>16%</td>
</tr>
<tr>
<td>Analysis</td>
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<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>250</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Section II provides a brief background on our university/corporate relationship, including novel aspects in the implementation of our Series 7 course offering. The course was offered for the first time during our spring 2006, academic term with a prime objective to prepare students to write the Series 7 exam upon completion of the course. The financial services company generously agreed to provide its own corporate trainers to act as visiting instructors for our first offering of the course. There is no doubt that the orientation of the visiting facilitators was to prepare the students to successfully write the FINRA exam. While the course covered a wide range of viable academic topics, the tenor of the course was certainly geared to “teaching to the test”. Further, while there is no doubt that there was sufficient academic content to award university credits for this course, the classroom work was somewhat different in character than our typical finance course offering.

Section III reviews recent literature on the costs and benefits of teaching to the test approaches. Most of the existing work on this topic relates to the secondary school setting, for which the issue has become highly controversial with the increasing reliance on “high stakes” testing and the recent No Child Left Behind Act of 2001 (Public Law 107-110). Section IV extends this discussion to the university level, treating our Series 7 course as a case example.

**Background**

In early 2005, the School of Business at SNHU was approached by a large, diversified financial services company to determine if SNHU might be interested in offering a Series 7 course to existing university students. The company has a major facility nearby and would be very interested in interviewing graduates from such a course for permanent employment. The School of Business and the company had worked together successfully on various projects prior to 2005, so both sides came to the discussion with a positive attitude. The firm has an ongoing need for employees with the Series 7 credential and was interested in working with us to develop a pool of qualified, potential employees. SNHU viewed the opportunity as a chance to solidify a strong relationship with a premier corporation in our area, as well as to provide a unique opportunity for our students interested in pursuing careers in the financial services industry.

It was decided that, during the remainder of calendar year 2005, SNHU would undertake developmental work with the intention of offering a for-credit course during our spring 2006, academic term. During this period, the academic content for the course was established, course materials and teaching strategies were developed, and the required university approvals were obtained. Further, it was necessary to address two novel issues with this specialized course offering:

1. Working with the state Securities Bureau to sponsor our students for the FINRA Series 7 examination;
2. Determining how the financial services company would participate in the project.

In particular,

1. **Working with the state Securities Bureau to sponsor our students for the FINRA Series 7 examination:** Normally, Series 7 test takers must be employees of and sponsored by a registered broker/dealer. If the intent is for students to write the examination upon completion of the course
(ideally within a few days while the material is still fresh), it is unlikely that they would be employees of a broker/dealer at that point in time. To solve this conundrum, we worked directly with the New Hampshire Securities Bureau. We established a protocol with the Securities Bureau under which the student would write the exam with state sponsorship. For students who passed the exam, the Bureau would “warehouse” the certification for up to two years. If the student then took employment with a registered broker/dealer within the two year window, the broker/dealer could activate the warehoused certification on behalf of the new employee and the employee would immediately become Series 7 licensed.

In order to be sponsored by the Securities Bureau, the student simply made a written application and paid a nominal fee to cover the administrative costs of the required state police criminal background check.3

2. Determining how the financial services company would participate in the project: In addition to providing facilitators for our course, the firm agreed to provide course materials (valued at $325) to each student enrolled in the course. SNHU viewed this offer as a very positive commitment to the project on the part of the corporation. Furthermore, the company committed to offer employment interviews and employment consideration to students registered in the course.

Literature Review

Much research has been conducted regarding aspects of “teaching to the test” in conjunction with the high stakes testing that is increasingly required in many secondary school jurisdictions. The issue has become even more topical with the recent No Child Left Behind legislation. Academic studies have ranged from documenting the existence of teaching to the test, to evaluating the consequences of doing so, to alternative procedures. While the secondary school setting surely differs from our financial certification preparation at the university level, it will be instructive to present related elements of the secondary school based literature. Recall that it is not our purpose to evaluate whether teaching to the test is the optimal method in preparing students to pass the FINRA Series 7 examination. Our primary focus is to explore whether and/or how the learning opportunity is compromised or non-maximized with the approach.

From the point of view of maximizing the academic content for students, Kober (2002) suggests that “any form of teaching to the test is inappropriate if it raises test scores without also increasing students’ knowledge and skills in the broader subject being tested”. Kober’s suggestion would appear to be a useful metric for university course work for which academic credit is earned. Kober herself goes on to explore circumstances under which teaching to the test would likely be inappropriate under her criterion. Her concerns can be grouped into the teaching of (1) test-taking skills and (2) test-taking preparation. She argues that the drilling of the following test-taking skills would almost surely not be in the academic interests of the students:

- Practice on questions that have appeared on previous exams, are likely to appear, or that the instructor knows will appear;
- Instruction and practice on how to navigate the test form;
- Test-taking tricks including how to “narrow down choices in multiple-choice questions”; Seeley (2006) includes the use of clue words and mnemonics; and
- Exam time management.

Clearly, all of the above use classroom contact time for activities that are unlikely to emphasize the academic content of the subject matter. Test preparation strategies include:

- Over-emphasis on topics that have appeared on previous exams; and
- Over-emphasis on topics that lend themselves to testing under the particular testing format – in the case of the Series 7 exam, subject matter that is likely to be tested in a multiple-choice format. These and other test preparation approaches necessarily limit the opportunities to study non-tested concepts in appropriate detail.

Further, Sacks (2000) has shown that over reliance on teaching to the test can skew the preparation of teaching materials throughout the entire curriculum. Teaching materials such as student exercises, instructional and assessment templates, and other instructional ancillaries are often developed specifically

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3While the state of New Hampshire is content to continue with this protocol, FINRA has recently stated that it intends to enforce existing regulations that require test takers to be sponsored by registered broker/dealers.
to support strong test scores. Taking a similar position, Herman (1992) argues that teaching materials so designed often concentrate on only the most elementary aspects of the subject. Posner (2006) supports this view by arguing that only basic concepts can be included on standardized tests because only a very short time is typically allocated for each question and because possible answer choices will be limited in scope and unable to address nuances of the materials covered. Popham (2000, 2001) reinforces the same points while concentrating on the deleterious effects of so-called item teaching, the over exposure of topics likely to appear on the test.

Neil (2003) goes a step further to argue that it is entirely possible that the understanding of even the basic skills that are taught directly in the test preparation may be substandard. The argument is that the presentation of this basic material using curriculum materials designed solely to maximize test scores can dilute the understanding of these topics. Consequently, not only are the advanced topics likely to be short changed under a teaching to the test approach (because these topics are deemphasized), but base level understanding is not as comprehensive as it might be (because the test preparation tactics may not be optimal for learning).

Bond (2006), Kober (2002) and others point out that teaching to the test is much more dangerous if the actual test is a sample of the relevant subject matter as opposed to an exhaustive assessment of the material. For example, Bond argues that teaching specific finger exercises and keystrokes in a typing course is likely be totally appropriate, as any typing skills assessment will almost surely include virtually all combinations and permutations of keystrokes. Clearly, under circumstances where we teach to a subset of the course material corresponding to the tested sample, we will have under trained in the omitted material and the test will be a poor vehicle to assess knowledge of the entire subject matter.

**FINRA Series 7 Course at SNHU**

It is fair to argue that each of the issues discussed in the previous section has arisen in our Series 7 course at SNHU. The corporate facilitators clearly taught to the test, and they knowingly do so in their in-house training programs as well. They have pointed out to us that most employees will normally only use a small subset of the tested material directly in their day-to-day activities, so the actual test itself is viewed as much as a required hurdle as an assessment tool. Additionally, they have confidence that their approach teaches important foundation skills over a large volume of material rapidly and efficiently. Further, the corporation made it very clear that it does not tolerate any effort to violate the integrity of the examination process.

Our facilitators did drill our class on test taking mnemonics, multiple-choice test taking strategies and the like. It was pointed out which chapters in the textbook required mastery, and which chapters could be deemphasized. In the spirit of keeping the course “on pace”, interesting ancillary topics were not typically explored in the test preparation class to the fullest because the topic was, as the facilitator responded, “not tested”. Many times these related issues were raised by students, and in these cases, our faculty present took the opportunity to augment the class discussions to supplement instruction provided by the facilitator. In that vein, our students did clearly perceive a difference in the teaching/classroom environment for this Series 7 course versus our typical finance course. However, since virtually all of the students were keen to pass the Series 7 exam immediately after the course, the students were highly tolerant of this non-standard teaching approach. Our students realized the huge advantage of having the Series 7 certification as a vita line item, and were virtually unanimous in embracing a test preparation course. Our faculty very much appreciated the single-mindedness of the corporate facilitators in maintaining pace and content coverage.

At SNHU, we have concluded that offering the Series 7 test preparation course for academic credit is appropriate. While the coverage of certain topics may be less in-depth than ideal (although finance/economics students would certainly see additional coverage of these topics in related courses), the breadth of the material is quite impressive. Furthermore, there is considerable practical institutional detail that is unavailable to our students via our other finance course offerings. For example, coverage of the handling of customer accounts, self-regulatory organization rules, municipal bond topics and capital market structure are particularly comprehensive and provide high value added for students looking to employment in the financial services industry.

One aspect of our Series 7 project gives us pause. Our typical undergraduate carries five courses per term and may hold either an internship and/or part-time job, with the internship or the job requiring up to twenty hours per week each. Given the study regimen required for Series 7, it is reasonable to ask whether the typical student has adequate time to do justice to all of his/her activities. Additionally, the Series 7
material is sufficiently cumulative and extensive, so that even a slight drop in study intensity can have serious ramifications for student progress. In our pilot offering, we did have students who fell behind and were never able to recover fully. We also had students who committed fully to the course but short changed their work in other courses. Note that a typical self-study program or an in house corporate program is usually a very intensive program delivered in a more compressed (much shorter than a 15 week term) timeframe. In addition, the corporate candidate is often able to commit a majority of working hours to preparation, particularly near the actual test date. At SNHU, we will plan to address this issue with more detailed advising and planning (e.g., make your Series 7 semester a semester with a lighter load and fewer other outside commitments) and a willingness to compress the format for the course. We continue to evaluate our plan to continue to offer the program on a semester basis, use our own faculty to teach the course, and re-evaluate format after a few more offerings. Based on the success of our pilot offering, the financial services company has agreed to continue to provide course materials to all students and to actively recruit course graduates.

References


