Chapter 19 Multiple Choice Questions

1. Property insurance protects the property holder against
   a. direct losses and indirect losses.
   b. nondirect losses and indirect losses.
   c. direct losses and nondirect losses.
   d. direct loss.

2. In property insurance terminology, direct losses are all except
   a. replacing property destroyed.
   b. repairing property destroyed.
   c. replacing third party property damaged.
   d. repairing property damaged.

3. In property insurance terminology, indirect losses are the costs of
   a. replacing property destroyed.
   b. repairing property destroyed.
   c. additional living expenses following a direct loss.
   d. personal liability coverages.

4. The law of large numbers makes it possible for a company to assume risk for an insured party through a ______ upon payment of a ______.
   a. policy, premium
   b. contract, fee
   c. policy, fee
   d. Any of the above

5. Insurance is possible because of the law of large numbers, which means
   a. events that are unpredictable for an individual become predictable for a large number of individuals.
   b. events that are unpredictable for a large number of individuals become predictable for an individual.
   c. insurers can predict whether an individual will suffer a loss better than they can predict whether a large number of individuals will suffer losses.
   d. insurers can adequately predict the losses incurred by an individual, but are unable to predict the losses for large numbers of individuals.
6. Homeowner’s policies provide coverage of losses from
   a. fire or other perils.
   b. loss of use.
   c. personal property.
   d. All of the above

7. Which of the following does not fall into one of the broad categories of insurable risk?
   a. Gambling losses at a casino
   b. Loss of property due to fire
   c. Liability for loss resulting from negligent use of the property
   d. Financial loss, particularly inability to make mortgage payments, as a result of death of the wage earner

8. Which of the following is not a category of property risk?
   a. Loss of property due to fire, wind, water or other hazards
   b. Liability losses resulting from negligent use of property
   c. Loss of value through economic obsolescence
   d. Financial loss resulting from death or disability of the wage earner

9. Property insurance protects the policyholder against
   a. all direct and indirect losses.
   b. all direct losses.
   c. losses from insured risks only.
   d. living expenses or loss of business income.

10. An example of a direct loss is
    a. additional living expenses due to loss.
    b. loss of business income before restoration.
    c. loss of use of the property.
    d. costs of replacing or repairing damaged property.

11. Insurance against risk is possible because of the
    a. law of diminishing returns.
    b. law of inverse proportion.
    c. new lease principle.
    d. law of large numbers.
12. _______ insurance protects the tenant against the loss of personal property.
   a. Renter’s
   b. Liability
   c. Lender’s
   d. None of the above

13. The homeowner’s policy is designed to provide coverage for losses from fire and other risks, including all the following except
   a. personal liability.
   b. theft.
   c. medical payments.
   d. a third party’s vehicle.

14. Which of the following options offers insurance to prevent the loss of the home in the event of the death of the principal wage earner?
   a. Mortgage insurance
   b. Mortgage life insurance
   c. a and b only
   d. None of the above

15. If the home covered under the insurance policy is damaged and can not be occupied for two months while repairs are being made, the insurer will pay the necessary increased living expenses under provisions for
   a. direct losses.
   b. fire losses.
   c. indirect losses.
   d. property damage.

16. The _______ clause states that full payment of damages to buildings under the homeowner’s policy will be made only if insurance equal to 80 percent of the replacement cost of the building is carried at the time of the loss.
   a. coinsurance
   b. decreased premium
   c. reinsurance
   d. increased premium

17. Why do insurers include a coinsurance clause?
   a. To increase the premium
   b. To reduce the premium
   c. Most insurance claims do not involve a total loss
   d. Most insurance claims involve a total loss
18. The most widely used form of the homeowner’s policy covers all of the following except
   a. fire and other perils.
   b. animals, birds, and fish.
   c. personal liability.
   d. theft.

19. When coinsurance is applied, the percentage of recovery is determined by which formula?
   a. Building cost divided by insurance carried
   b. 80% of replacement cost of building divided by insurance carried
   c. Insurance carried divided by 80% of replacement cost of building
   d. Insurance carried divided by 100% of replacement

20. Which of the following items would **not** affect the insurance rate charged on a typical homeowner’s policy?
   a. Quality of fire department services in the area
   b. Location of the property relative to commercial land uses
   c. Type of construction
   d. Amount of the deductible

21. The Dill family home has a replacement cost of $105,000, and they carry $80,000 worth of insurance. In the event of a $50,000 loss due to fire, how much would the insurance company owe them?
   a. $38,095
   b. $23,810
   c. $45,040
   d. $50,000

22. In a homeowner’s policy that covers losses to personal property for actual cash value, theft of a sofa that cost $1,200 new but has a market value of $750 would entitle the homeowner to recover what amount?
   a. $1,200
   b. $750
   c. $450
   d. The current retail price for a new replacement sofa
23. Because most homeowner’s policies have relatively low limits for items such as rare coins and jewelry, people with significant investments in these items should consider obtaining
   a. personal liability insurance riders.
   b. professional liability insurance riders.
   c. personal articles floater policies.
   d. umbrella liability policies.

24. Charlie is considering purchasing a home that lies in a floodplain. Because he wants to save money, he decides not to purchase flood insurance. Which of the following statements are true if he expects to finance the purchase with a mortgage from his local savings and loan association?
   a. Federal law requires flood insurance on all loans made by federally regulated mortgage lenders.
   b. The purchase of flood insurance is not an issue for the lender’s concern.
   c. A mortgage life insurance policy may be substituted for flood insurance.
   d. An umbrella policy may be substituted for flood insurance.