

# Chapter 1

## Risk in Our Society

- 1) Traditionally, risk has been defined as
- A) any situation in which the probability of loss is one.
  - B) any situation in which the probability of loss is zero.
  - C) uncertainty concerning the occurrence of loss.
  - D) the probability of a loss occurring.

Answer: C

Question Status: Previous Edition

- 2) Objective risk is defined as
- A) the probability of loss.
  - B) the relative variation of actual loss from expected loss.
  - C) uncertainty based on a person's mental condition or state of mind.
  - D) the cause of loss.

Answer: B

Question Status: Previous Edition

- 3) An insurance company estimates its objective risk for 10,000 exposures to be 10 percent. Assuming the probability of loss remains the same, what would happen to the objective risk if the number of exposures were to increase to 1 million?
- A) It would decrease to 1 percent.
  - B) It would decrease to 5 percent.
  - C) It would remain the same.
  - D) It would increase to 20 percent.

Answer: A

Question Status: Previous Edition

- 4) Uncertainty based on a person's mental condition or state of mind is known as
- A) objective risk.
  - B) subjective risk.
  - C) objective probability.
  - D) subjective probability.

Answer: B

Question Status: Previous Edition

- 5) The long-run relative frequency of an event based on the assumption of an infinite number of observations with no change in the underlying conditions is called
- A) objective probability.
  - B) objective risk.
  - C) subjective probability.
  - D) subjective risk.

Answer: A

Question Status: Previous Edition

- 6) Which of the following statements about *a priori* probabilities is correct?
- A) They are subjective probabilities based on ambiguity in the way probability is perceived.
  - B) They are subjective probabilities that may vary among individuals because of factors such as age, gender, education, and the use of alcohol.
  - C) They are objective probabilities that can be determined by deductive reasoning.
  - D) They are objective probabilities that can be determined by subjective reasoning.

Answer: C

Question Status: Previous Edition

- 7) An individual's personal estimate of the chance of loss is
- A) an objective probability.
  - B) an objective risk.
  - C) a subjective probability.
  - D) an *a priori* probability.

Answer: C

Question Status: Previous Edition

- 8) A peril is
- A) a moral hazard.
  - B) the cause of a loss.
  - C) a condition which increases the chance of a loss.
  - D) the probability that a loss will occur.

Answer: B

Question Status: Previous Edition

- 9) An earthquake is an example of a
- A) moral hazard.
  - B) peril.
  - C) physical hazard.
  - D) objective risk.

Answer: B

Question Status: Previous Edition

- 10) Dense fog that increases the chance of an automobile accident is an example of a
- A) speculative risk.
  - B) peril.
  - C) physical hazard.
  - D) moral hazard.

Answer: C

Question Status: Previous Edition

- 11) Faking an accident to collect insurance proceeds is an example of a
- A) physical hazard.
  - B) objective risk.
  - C) moral hazard.
  - D) attitudinal hazard.

Answer: C

Question Status: Revised

12) Carelessness or indifference to a loss is an example of

- A) physical hazard.
- B) objective probability.
- C) moral hazard.
- D) attitudinal hazard.

Answer: D

Question Status: Revised

13) Some characteristics of the judicial system and regulatory environment increase the frequency and severity of loss. This hazard is called

- A) moral hazard.
- B) physical hazard.
- C) attitudinal hazard.
- D) legal hazard.

Answer: D

Question Status: Revised

14) Taylor Tobacco Company is concerned that the company may be held liable in a court of law and ordered to pay a large damage award. The characteristics of the judicial system that increase the frequency and severity of losses are known as

- A) moral hazard.
- B) particular risk.
- C) speculative risk.
- D) legal hazard.

Answer: D

Question Status: Previous Edition

15) A phrase that encompasses all of the major risks faced by a business firm is

- A) financial risk.
- B) speculative risk.
- C) enterprise risk.
- D) pure risk.

Answer: C

Question Status: Previous Edition

16) Which of the following statements about financial risk is (are) true?

- I. Enterprise risk does not include financial risk.
- II. Financial risk is easily addressed through the purchase of insurance.

- A) I only
- B) II only
- C) both I and II
- D) neither I nor II

Answer: D

Question Status: Previous Edition

- 17) All of the following are considered financial risks EXCEPT
- A) the decline in the value of a bond portfolio because of rising interest rates.
  - B) increased cost of production because of rising commodity prices.
  - C) loss of money because of adverse movements in currency exchange rates.
  - D) destruction of a production facility caused by an explosion.

Answer: D

Question Status: Previous Edition

- 18) Katelyn was just named Risk Manager of ABC Company. She has decided to create a risk management program which considers all of the risks faced by ABC –pure, speculative, operational, and strategic–in a single risk management program. Such a program is called a(n)
- A) financial risk management program.
  - B) enterprise risk management program.
  - C) fundamental risk management program.
  - D) consequential risk management program.

Answer: B

Question Status: Previous Edition

- 19) A pure risk is defined as a situation in which there is
- A) only the possibility of loss or no loss.
  - B) only the possibility of profit.
  - C) a possibility of neither profit nor loss.
  - D) a possibility of either profit or loss.

Answer: A

Question Status: Previous Edition

- 20) The premature death of an individual is an example of a
- A) pure risk.
  - B) speculative risk.
  - C) fundamental risk.
  - D) physical hazard.

Answer: A

Question Status: Previous Edition

- 21) Which of the following statements about speculative risks is true?
- A) They are almost always insurable by private insurers.
  - B) They are more easily predictable than pure risks.
  - C) They may benefit society even though a loss occurs.
  - D) They involve only a chance of loss.

Answer: C

Question Status: Revised

22) An automobile that is a total loss as a result of a collision is an example of which of the following types of risk?

- I. Speculative risk
  - II. Diversifiable risk
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: B

Question Status: Revised

23) All of the following are programs to insure fundamental risks EXCEPT

- A) federally subsidized flood insurance.
- B) auto physical damage insurance.
- C) Social Security.
- D) unemployment insurance.

Answer: B

Question Status: Previous Edition

24) All of the following are examples of personal risks EXCEPT

- A) poor health.
- B) unemployment.
- C) premature death.
- D) flood.

Answer: D

Question Status: Previous Edition

25) Which of the following is a reason why premature death may result in economic insecurity?

- I. Additional expenses associated with death may be incurred.
  - II. The income of the deceased person's family may be inadequate to meet its basic needs.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

26) Which of the following are often consequences of long-term disability?

- I. Continuing medical expenses
  - II. Loss or reduction of employee benefits
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

27) All of the following are examples of direct property losses EXCEPT

- A) the theft of a person's jewelry.
- B) the destruction of a firm's manufacturing plant by an earthquake.
- C) the cost of renting a substitute vehicle while a collision-damaged car is being repaired.
- D) the vandalism of a person's automobile.

Answer: C

Question Status: Previous Edition

28) The extra expense incurred by a business to stay in operation following a fire is an example of a(n)

- A) fundamental risk.
- B) speculative risk.
- C) direct loss.
- D) indirect loss.

Answer: D

Question Status: Previous Edition

29) Which of the following statements about liability risks is (are) true?

- I. Future income and assets can be attached to pay judgments if inadequate insurance is carried.
  - II. There is an upper limit on the amount of loss.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: A

Question Status: Previous Edition

30) All of the following are burdens to society because of the presence of risk EXCEPT

- A) The size of an emergency fund must be increased.
- B) Individuals may profit from accepting a speculative risk.
- C) Society is deprived of certain goods and services.
- D) Mental fear and worry are present.

Answer: B

Question Status: Previous Edition

31) Loss control includes which of the following?

- I. Loss reduction
  - II. Loss prevention
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

32) Following good health habits can be categorized as

- A) loss prevention.
- B) risk retention.
- C) noninsurance transfer.
- D) personal insurance.

Answer: A

Question Status: Revised

33) From the insured's perspective, the use of deductibles in insurance contracts is an example of

- A) risk transfer.
- B) loss control.
- C) risk avoidance.
- D) risk retention.

Answer: D

Question Status: Previous Edition

34) The use of fire-resistive materials when constructing a building is an example of

- A) risk transfer.
- B) loss control.
- C) risk avoidance.
- D) risk retention.

Answer: B

Question Status: Previous Edition

35) All of the following statements about risk retention are true EXCEPT

- A) It may be used intentionally if commercial insurance is unavailable.
- B) It may be used passively because of ignorance.
- C) Its use is most appropriate for low-frequency, high-severity types of risks.
- D) Its use results in cost savings if losses are less than the cost of insurance.

Answer: C

Question Status: Previous Edition

36) All of the following are methods of noninsurance transfer EXCEPT

- A) entering into a hold-harmless agreement.
- B) avoiding dangerous activities.
- C) hedging risk using futures contracts.
- D) incorporating a business.

Answer: B

Question Status: Previous Edition

37) Curt borrowed money from a bank to purchase a fishing boat. He purchased property insurance on the boat. Curt had difficulty making loan payments because he did not catch many fish, and fish prices were low. Curt intentionally sunk the boat, collected from his insurer, and paid off the loan balance. This scenario illustrates the problem of

- A) adverse selection.
- B) moral hazard.
- C) nondiversifiable risk.
- D) attitudinal hazard.

Answer: B

Question Status: Revised

38) Jenna opened a successful restaurant. One night, after the restaurant had closed, a fire started when the electrical system malfunctioned. In addition to the physical damage to the restaurant, Jenna also lost profits that could have been earned while the restaurant was closed for repairs. The lost profits are an example of

- A) direct loss.
- B) nondiversifiable risk.
- C) speculative risk.
- D) indirect loss.

Answer: D

Question Status: Revised

39) Brad started a pest control business. To protect his personal assets against liability arising out of the business, Brad incorporated the business. Brad's use of the corporate form of organization to shield against personal liability claims illustrates

- A) fundamental risk.
- B) noninsurance transfer.
- C) risk retention.
- D) objective risk.

Answer: B

Question Status: Previous Edition

40) ABC Insurance Company plans to sell homeowners insurance in five Western states. ABC expects that 8 homeowners out of every 100, on average, will report claims each year. The variation between the rate of loss that ABC expects to occur and the rate of loss that actually does occur is called

- A) objective probability.
- B) subjective probability.
- C) objective risk.
- D) subjective risk.

Answer: C

Question Status: Previous Edition



- 41) Williams Company installed smoke detectors, a sprinkler system, and fire extinguishers in its new manufacturing facility. These devices are all examples of
- A) loss control.
  - B) noninsurance transfer.
  - C) risk avoidance.
  - D) risk retention.

Answer: A

Question Status: Previous Edition

- 42) Tyndal Products Company produces cereal. The company has entered into contracts to deliver 500,000 boxes of cereal during the next 18 months. The company is concerned that the prices of two ingredients, corn and wheat, may increase over the next 18 months. The company used grain futures contracts to hedge the price risk associated with these commodities. Tyndal's use of hedging illustrates which risk management technique?
- A) noninsurance transfer
  - B) risk avoidance
  - C) risk retention
  - D) risk assumption

Answer: A

Question Status: Previous Edition

- 43) Cathy's car hit a patch of ice on the road. The car skidded off the road and hit a tree. The presence of ice on the road is best described as a(n)
- A) peril.
  - B) subjective risk.
  - C) physical hazard.
  - D) indirect loss.

Answer: C

Question Status: Previous Edition

- 44) Jim and Paula Franklin started a dry cleaning business. The business may be successful or it may fail. The type of risk that is present when either a profit or loss could occur is called
- A) pure risk.
  - B) subjective risk.
  - C) nondiversifiable risk.
  - D) speculative risk.

Answer: D

Question Status: Revised

- 45) Ben is concerned that if he injures someone or damages someone's property he could be held legally responsible and required to pay damages. This type of risk is called a
- A) speculative risk.
  - B) liability risk.
  - C) nondiversifiable risk.
  - D) property risk.

Answer: B

Question Status: Revised

- 46) MLX Drug Company would like to market a new hypertension drug. While the Food and Drug Administration (FDA) was testing the drug, it discovered that the drug produced a harmful side effect. When MLX learned of the FDA's test result, MLX abandoned its plan to produce and distribute the drug. MLX's reaction illustrates
- A) risk avoidance.
  - B) hedging.
  - C) risk transfer.
  - D) risk retention.

Answer: A

Question Status: Previous Edition

- 47) ABC Health Insurance Company sells health insurance in one state. Recently, that state's legislature passed a law forbidding health insurers from considering an individual's health history when selecting applicants to insure. This change in law will increase the possibility of unprofitable results for ABC. This type of hazard is an example of
- A) physical hazard.
  - B) legal hazard.
  - C) moral hazard.
  - D) attitudinal hazard.

Answer: B

Question Status: Revised

- 48) All of the following are characteristics of the liability risk that most people face EXCEPT
- A) a lien may be placed on your income and assets to satisfy a legal judgment.
  - B) substantial legal expenses may be incurred defending the claim.
  - C) there is no upper limit on the amount of the loss.
  - D) owning liability insurance eliminates the possibility of being held legally liable.

Answer: D

Question Status: Previous Edition

- 49) Which of the following statements about chance of loss and risk is (are) true?
- I. If the chance of loss is identical for two groups, the objective risk must be the same.
  - II. Two individuals may perceive differently the risk inherent in a given activity.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: B

Question Status: Previous Edition

- 50) A risk that affects only individuals or small groups and not the entire economy is called a
- A) diversifiable risk.
  - B) pure risk.
  - C) speculative risk.
  - D) nondiversifiable risk.

Answer: A

Question Status: New

51) All of the following are commercial risks EXCEPT

- A) the loss of business income.
- B) the risk of insufficient retirement income.
- C) the risk of being sued.
- D) the risk of property damage.

Answer: B

Question Status: New

# Chapter 2

## Insurance and Risk

1) All of the following are characteristics of insurance EXCEPT

- A) risk avoidance.
- B) pooling of losses.
- C) payment of fortuitous losses.
- D) indemnification.

Answer: A

Question Status: Previous Edition

2) Which of the following is implied by the pooling of losses?

- A) sharing of losses by an entire group
- B) inability to predict losses with any degree of accuracy
- C) substitution of actual loss for average loss
- D) increase of objective risk

Answer: A

Question Status: Previous Edition

3) According to the law of large numbers, what happens as the number of exposure units increases?

- A) Actual results will increasingly differ from probable results.
- B) Actual results will more closely approach probable results.
- C) Nondiversifiable risk will decrease.
- D) Objective risk will increase.

Answer: B

Question Status: Revised

4) According to the law of large numbers, what should happen as an insurer increases the number of units insured?

- A) The amount the insurer expects to pay in claims should decrease.
- B) Underwriting expenses should decrease.
- C) Actual results will more closely approach expected results.
- D) The insurer's profitability should become more variable.

Answer: C

Question Status: Previous Edition

5) Characteristics of a fortuitous loss include which of the following?

- I. The loss is certain to occur.
  - II. The loss occurs as a result of chance.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: B

Question Status: Previous Edition

- 6) From the viewpoint of the insurer, all of the following are characteristics of an ideally insurable risk EXCEPT
- A) The loss must be accidental.
  - B) The loss should be catastrophic.
  - C) The premium must be economically feasible.
  - D) There must be a large number of exposure units.

Answer: B

Question Status: Revised

- 7) From the standpoint of the insurer, all of the following are characteristics of an ideally insurable risk EXCEPT
- A) The loss must be unintentional.
  - B) The chance of loss must be calculable.
  - C) The loss must be indeterminable.
  - D) The loss must be measurable.

Answer: C

Question Status: Revised

- 8) Why is a large number of exposure units generally required before a pure risk is insurable?
- A) It prevents the insurer from losing money.
  - B) It eliminates intentional losses.
  - C) It minimizes moral hazard.
  - D) It enables the insurer to predict losses more accurately.

Answer: D

Question Status: Previous Edition

- 9) The requirement that losses should be accidental and unintentional in order to be insurable results in which of the following?
- I. Decrease in moral hazard
  - II. More accurate prediction of future losses
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

- 10) Which of the following is implied by the requirement that a loss should be determinable and measurable to be insurable?
- I. The loss must be definite as to place.
  - II. The loss must be definite as to amount.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

11) Methods by which insurers may minimize or avoid catastrophic losses include which of the following?

- I. The use of reinsurance
  - II. Concentrating coverage written in one geographic region
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: A

Question Status: Previous Edition

12) Which of the following types of risks best meets the requirements for being insurable by private insurers?

- A) market risks
- B) property risks
- C) financial risks
- D) political risks

Answer: B

Question Status: Previous Edition

13) Reasons why market, financial, and production risks are often uninsurable include which of the following?

- I. The potential to produce a catastrophic loss is great.
  - II. The chance of loss cannot be accurately estimated.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

14) Which of the following types of risks is normally uninsurable by private insurers?

- A) personal risks
- B) property risks
- C) liability risks
- D) market risks

Answer: D

Question Status: Previous Edition

15) Which of the following is a result of adverse selection?

- A) The insurer's financial results will be substantially improved.
- B) Persons most likely to have losses are also most likely to seek insurance at standard rates.
- C) It is unnecessary for the insurance company to use underwriting.
- D) Insurance can be written only by the federal government.

Answer: B

Question Status: Previous Edition

- 16) The tendency for unhealthy people to seek life or health insurance at standard rates is an example of
- A) moral hazard.
  - B) fundamental risk.
  - C) attitudinal hazard.
  - D) adverse selection.

Answer: D

Question Status: Revised

- 17) Which of the following statements regarding insurance and gambling is (are) true?
- I. Insurance is used to handle existing pure risks, while gambling creates a new speculative risk.
  - II. Insurance usually involves risk avoidance, while gambling typically involves only risk reduction.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: A

Question Status: Previous Edition

- 18) In addition to marketing life insurance, life insurers typically sell which of the following products?
- I. Retirement annuities
  - II. Disability income insurance
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

- 19) Inland marine insurance provides coverage for
- A) goods being shipped on land.
  - B) premature death of members of the armed forces.
  - C) goods being shipped on ocean-going vessels.
  - D) liability exposures of nonprofit organizations.

Answer: A

Question Status: Previous Edition

- 20) All of the following are classified as casualty insurance EXCEPT
- A) life insurance.
  - B) general liability insurance.
  - C) workers compensation insurance.
  - D) burglary and theft insurance.

Answer: A

Question Status: Previous Edition

21) Which of the following is a form of casualty insurance?

- A) fire insurance
- B) general liability insurance
- C) inland marine insurance
- D) ocean marine insurance

Answer: B

Question Status: Previous Edition

22) The term "multiple-line insurance" is used to describe a type of insurance that combines which of the following coverages into a single contract?

- A) workers compensation and health insurance
- B) life and disability insurance
- C) property and casualty insurance
- D) pensions and annuities

Answer: C

Question Status: Previous Edition

23) All of the following are benefits to society that result from insurance EXCEPT

- A) less worry and fear.
- B) elimination of moral hazard.
- C) indemnification for loss.
- D) loss prevention.

Answer: B

Question Status: Previous Edition

24) Which of the following statements about the insurance industry as a source of investment funds is (are) true?

- I. These funds result in a lower cost of capital than would exist in the absence of insurance.
  - II. These funds tend to promote economic growth and full employment.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: C

Question Status: Previous Edition

25) All of the following are social costs associated with insurance EXCEPT

- A) insurance company operating expenses.
- B) fraudulent claims.
- C) inflated claims.
- D) increased cost of capital.

Answer: D

Question Status: Previous Edition



- 26) A group of farmers agreed that if any farmer suffered a property loss, the loss would be spread over the entire group. In this way, each farmer is responsible for the average loss of the group rather than the actual loss that the farmer sustained. Which characteristic of insurance is embodied in this agreement?
- A) pooling of losses
  - B) fortuitous losses
  - C) risk avoidance
  - D) indemnification

Answer: A

Question Status: Previous Edition

- 27) XYZ Insurance Company writes coverage for most perils which can damage property. XYZ, however, does not write flood insurance on property located in flood plains. Which requirement of an ideally insurable risk might be violated if XYZ wrote flood insurance on property located in flood plains?
- A) There must be a large number of similar exposure units.
  - B) The loss should not be catastrophic.
  - C) The chance of loss must be calculable.
  - D) The losses must be determinable and measurable.

Answer: B

Question Status: Revised

- 28) ABC Appliance offers a warranty requiring an annual fee. The warranty may be purchased at the time of sale or at any time within the first year after the appliance was purchased. The warranty fee after the date of purchase is twice the time-of-purchase fee. When asked why the fee was higher after the date of purchase, ABC's president said, "Buying a warranty is voluntary. We've noted that those who buy the warranty after the purchase date have a greater need for service." Charging the same rate or a lower rate after the date of purchase would expose ABC to what problem that also impacts private insurers?
- A) excessive premiums
  - B) reduced claims
  - C) bad investments
  - D) adverse selection

Answer: D

Question Status: Previous Edition

- 29) Alpha Insurance Company insures a broad range of risks, including whatever is not covered by fire, marine, and life insurers. Which term best describes the wide range of risks written by Alpha Insurance?
- A) fidelity insurance
  - B) casualty insurance
  - C) social insurance
  - D) property insurance

Answer: B

Question Status: Previous Edition

30) LMN Insurance markets homeowners insurance. The LMN homeowners policy combines property and casualty insurance in the same contract. Insurance policies combining property and casualty coverage in the same contract are called

- A) mono-line policies.
- B) multi-year policies.
- C) multiple-line policies.
- D) manuscript policies.

Answer: C

Question Status: Previous Edition

31) One branch of government insurance programs has a number of distinguishing characteristics. These programs are compulsory, they are financed by mandatory contributions rather than general tax revenues, and benefits are weighted in favor of low-income groups. These government insurance programs are called

- A) welfare programs.
- B) social insurance programs.
- C) casualty insurance programs.
- D) private insurance programs.

Answer: B

Question Status: Previous Edition

32) Gina would like to buy a house. She will pay 10 percent of the cost of the house as a down payment and borrow the other 90 percent from a mortgage lender. The home will serve as collateral for the loan. The lender requires Gina to purchase property insurance on the home so that the collateral supporting the loan will be protected. This scenario illustrates which of the following benefits of insurance to society?

- A) enhancement of credit
- B) reduction of fear and worry
- C) source of investment funds
- D) incentives for loss prevention

Answer: A

Question Status: Previous Edition

33) ABC Insurance Company calculated the amount that it expected to pay in claims under each policy sold. Rather than selling the insurance for the amount it expected to pay in claims, ABC added an allowance to cover the cost of doing business, including commissions, taxes, and acquisition expenses. This allowance is called a(n)

- A) policyowner dividend.
- B) premium.
- C) expense loading.
- D) rate credit.

Answer: C

Question Status: Previous Edition

- 34) JKL Insurance Company estimates that 14 out of every 100 homeowners it insures will file a claim each year. Last year, JKL insured 200 homeowners. According to the law of large numbers, what should happen if JKL insures 2,000 homeowners this year?
- A) The total number of claims filed by JKL policyowners should decrease.
  - B) The total dollar value of claims will decrease.
  - C) The average size of loss will decline in value.
  - D) The actual results will more closely approach the expected results.

Answer: D

Question Status: Previous Edition

- 35) Apex Insurance Company wrote a large number of property insurance policies in an area where earthquake losses could occur. When the president of Apex was asked if she feared that a severe earthquake might put the company out of business, she responded, "Not a chance. We transferred most of that risk to other insurance companies." An arrangement by which an insurer that initially writes insurance transfers to another insurer part or all of the potential losses associated with such insurance is called
- A) hedging.
  - B) speculating.
  - C) reinsurance.
  - D) loss avoidance.

Answer: C

Question Status: Previous Edition

- 36) Bronson Casualty Company sells casualty insurance only. Which of the following coverages could you purchase from Bronson Casualty Company?
- A) life insurance
  - B) fire insurance
  - C) marine insurance
  - D) liability insurance

Answer: D

Question Status: New

- 37) Which of the following statements regarding insurance and hedging is (are) true?
- I. Insurance involves the transfer of insurable risk while hedging handles risk that is typically uninsurable.
  - II. Both insurance and hedging rely on the law of large numbers to reduce risk.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: A

Question Status: Previous Edition

- 38) Ashley opened an all-you-can-eat buffet restaurant. The cost per-person was based upon what Ashley believed an average restaurant patron would consume. The restaurant began to lose money. Ashley concluded that her patrons had "above average" appetites, and were attracted to her restaurant because they could eat as much as they wanted while being charged an average price. A similar phenomenon exists in insurance markets. This problem is called
- A) moral hazard.
  - B) adverse selection.
  - C) attitudinal hazard.
  - D) fundamental risk.

Answer: B

Question Status: Revised

- 39) Which of the following statements is (are) true concerning private insurance?
- I. Social insurance programs are private insurance programs.
  - II. Both individuals and businesses purchase private insurance.
- A) I only
  - B) II only
  - C) both I and II
  - D) neither I nor II

Answer: B

Question Status: Previous Edition

- 40) Adverse selection occurs
- A) when an insurance company loses money on its investments.
  - B) when individuals intentionally bring about a loss in order to collect from an insurer.
  - C) when catastrophic losses occur as a result of a natural disaster.
  - D) when applicants with a higher-than-average chance of loss seek insurance at standard rates.

Answer: D

Question Status: New