1. From the insured’s perspective, the use of deductibles in insurance contracts is an example of
   A) risk avoidance.  B) risk transfer.  C) loss control.  D) risk retention.

2. Insurance authors have traditionally defined risk as
   A) any situation in which the probability of loss is one.
   B) any situation in which the probability of loss is zero.
   C) the probability of a loss occurring.
   D) uncertainty concerning the occurrence of loss.

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

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

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

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

7. 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) life and disability insurance  B) workers compensation and health insurance
   C) property and casualty insurance  D) pensions and annuities

8. 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
9) According to the law of large numbers, what happens as the number of exposure units increases?
   A) Actual results will more closely approach probable results.
   B) Fundamental risk will decrease.
   C) Actual results will increasingly differ from probable results.
   D) Objective risk will increase.

10) Factors a risk manager must consider in selecting an insurer include which of the following?
    I. The availability of risk management services.
    II. The financial strength of the insurer.
    A) I only
    B) II only
    C) both I and II
    D) neither I nor II

11) Loss severity is defined as the
    A) probable number of losses which may occur during some period.
    B) probability that a liability judgment may exceed a firm’s net worth.
    C) probability that any particular piece of property may be totally destroyed.
    D) probable size of the losses which may occur during some period.

12) A risk manager has a fleet of 200 vehicles. On average, 50 vehicles per year experience property damage. What
    is the probability that any vehicle will be damaged in any given year?
    A) 10 percent
    B) 25 percent
    C) 20 percent
    D) 50 percent

13) When must an insurable interest legally exist in property insurance?
    A) only at the inception of the policy
    B) only at the time the loss settlement process takes place
    C) only at the time of loss
    D) both at the time of loss and at the inception of the policy

14) A total loss under a valued policy is settled on the basis of the
    A) amount of insurance covering the loss.
    B) replacement value of the loss.
    C) actual cash value of the loss.
    D) market value of the loss.

15) Which of the following is a fundamental purpose of the principle of indemnity?
    A) to settle property insurance losses on a replacement cost basis
    B) to reduce moral hazard
    C) to minimize physical hazards
    D) to require deductibles in all property insurance policies

16) The principle of utmost good faith is supported by all of the following legal doctrines EXCEPT
    A) concealment.
    B) warranty.
    C) subrogation.
    D) representations.

17) A false statement made by an applicant for insurance is an example of a
    A) lack of offer and acceptance.
    B) concealment.
    C) misrepresentation.
    D) breach of warranty.
18) The deductible for automobile collision losses is an example of a(n)
   A) corridor deductible.
   C) elimination period.
   B) aggregate deductible.
   D) straight deductible.

19) A provision in a disability income insurance policy that requires a person to be disabled 90 days before receiving benefits is an example of a(n)
   A) elimination period.
   C) corridor deductible.
   B) probationary period.
   D) exclusion period.

20) Eric's property was damaged in an accident. He phoned his agent to see if the loss was covered under his property insurance policy. The agent said, "As long as the loss is not specifically excluded in the policy, the loss is covered." Based on the agent's answer, what type of insurance agreement appears in the policy?
   A) named-perils coverage
   C) unconditional coverage
   B) listed-perils-only coverage
   D) "all-risks" coverage

二、 Explain the following insurance terms: (20%)

1. Subrogation
2. Personal contract
3. Admitted assets vs. Nonadmitted assets
4. Elimination (waiting) period
5. Grace period

三、 List the four requirements that must be met to have a valid insurance contract. (20%)

四、 Insurance contracts have distinct legal characteristics that distinguish them from other contracts. Explain these characteristics. (20%)