U N I T   T E S T

Throughout this course, as you complete each unit, you will have a chance to review what you have learned by working through some review exercises. After you have completed them, be sure to review any that you missed and, if necessary, reread the appropriate section of the text.

Note that unit review questions are drawn from all topics discussed in a particular unit. Students who are taking this course to prepare for producer licensing exams may see questions on topics that were not included on their state exam syllabuses. If you wish to tailor your review to your particular state's licensing exam, we recommend that you purchase Kaplan's Property and Casualty InsurancePro QBank™. Go to www.kfeducation.com for details.

1. Match each word below with its appropriate definition.

1. Risk   ____   A. Increases the chance of loss
2. Insurance ____   B. A means of transferring the risk of loss
3. Peril   ____   C. The chance of loss
4. Hazard   ____   D. The cause of loss

2. Which of the following represent pure risks?
    A. Terry places a bet on the outcome of a basketball game.
    B. Margaret's dog is temperamental. She's afraid it will bite a neighbor someday, and she will be held responsible.
    C. Both A and B.

3. The law of large numbers
    A. prohibits insurance with extremely high premiums
    B. states that there must be an adequate spread of risk for insurance to be effective
    C. states that the more examples used to develop a statistic, the more reliable the statistic will be

4. LaTonya purchases a house from John. She borrows $75,000 from First City Bank which, along with her $25,000 down payment, equals the $100,000 purchase price of the home. Who has an insurable interest in this home?
    A. LaTonya
    B. John
    C. LaTonya's son, who would like to inherit the home some day
    D. First City Bank

5. Describe four of the criteria a risk must meet to be insurable.
    A. _____
    B. _____
    C. _____
    D. _____

6. Highpoint Industries has an automatic sprinkler system installed in its office building. This is an example of which risk management method?
    A. Avoidance
    B. Reduction
    C. Control

7. Benson Pharmaceutical Company decides not to manufacture a new drug after determining that it has serious potential side effects. This is an example of which risk management method?
    A. Transfer
    B. Retention
    C. Avoidance