

**Personal Finance, 6e (Madura)**

**Chapter 11 Auto and Homeowner's Insurance**

11.1 Background on Insurance

1) Insurance protects you against potential financial losses or liability that result from unexpected events.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) In the context of insurance, the term *liability* is used to mean that you may be required to pay other individuals for damages that you caused to them or their property.

Answer: TRUE

Diff: 1

Question Status: Revised

3) Having liability coverage as part of auto and homeowner's policies helps protect your \_\_\_\_\_ in the event of an accident.

A) insurance rates

B) credit rating

C) net worth

D) house value

Answer: C

Diff: 1

Question Status: New

11.2 Managing Risk

1) The first step in the risk management process is to insure against risk.

Answer: FALSE

Diff: 2

Question Status: Previous edition

2) One method of managing risk is to limit your exposure to a financial loss.

Answer: TRUE

Diff: 2

Question Status: Revised

3) The decision to obtain insurance should be determined by weighing its costs and benefits.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Insurance can protect your existing net worth and also increase the likelihood that you will be able to increase your net worth in the future.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) Insurance should be considered even when there is a high likelihood than an event will cause a small financial loss.

Answer: FALSE

Diff: 1

Question Status: Revised

6) The most popular forms of insurance for individuals are property and casualty, life insurance, and health insurance.

Answer: TRUE

Diff: 2

Question Status: Previous edition

7) \_\_\_\_\_ is **not** a suggested risk management method.

A) Avoiding risks

B) Ignoring risks

C) Accepting risks

D) Insuring against risks

Answer: B

Diff: 1

Question Status: Previous edition

8) The primary function of insurance is to

A) insure you against all types of risk.

B) become wealthy from the claims you file.

C) maintain your existing level of wealth.

D) give you peace of mind.

Answer: C

Diff: 1

Question Status: Revised

9) Lessening your exposure to an illness by getting periodic health checkups is an example of

A) avoiding risks.

B) reducing risks.

C) accepting risks.

D) transferring risks.

Answer: B

Diff: 1

Question Status: Previous edition

10) Which risk management alternative is feasible when the likelihood of an event that could cause a financial loss is very low and the potential financial loss due to the event is small?

- A) Avoid risk
- B) Reduce risk
- C) Accept risk
- D) Insure against risk

Answer: C

Diff: 2

Question Status: Previous edition

11) Insurance is **not** a good option for managing risk when

- A) the probability of loss is very small and the expected loss is small.
- B) the benefits outweigh the costs.
- C) you want to protect your existing and future net worth.
- D) there is a likelihood that an event will cause a large financial loss.

Answer: A

Diff: 1

Question Status: Revised

12) People are more willing to purchase or increase their insurance coverage when

- A) economic conditions are favorable and incomes are lower.
- B) economic conditions are favorable and incomes are higher.
- C) economic conditions are weak and incomes are lower.
- D) None of the above.

Answer: B

Diff: 2

Question Status: Previous edition

13) Which of the following is **not** a popular form of insurance for individuals?

- A) Life insurance
- B) Health insurance
- C) Homeowners insurance
- D) General liability insurance

Answer: D

Diff: 2

Question Status: Previous edition

14) Having a large deductible on your auto or homeowner's insurance is a form of

- A) managing risk.
- B) self-insuring risk.
- C) financial decision-making.
- D) A, B and C are all correct.

Answer: D

Diff: 3

Question Status: New

### 11.3 Role of Insurance Companies

1) In general, insurance companies generate their revenue from the payments received for policies and from the return earned from investing the payments until the funds are needed to cover claims.

Answer: TRUE

Diff: 1

Question Status: Revised

2) Since insurance companies rely mostly on their premiums to cover claims, they price their insurance policies to reflect the probability of a claim and the size of the claim.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Independent insurance agents work for one particular company.

Answer: FALSE

Diff: 2

Question Status: Revised

4) In general, insurance companies generate their revenues from

A) receiving payments for policies.

B) investing the proceeds of premiums until the funds are needed to cover losses.

C) the increases in the value of their corporate stock.

D) Both A and B are correct.

Answer: D

Diff: 1

Question Status: Revised

5) Underwriters for an insurance company do **not**

A) market insurance policies.

B) calculate the risks of specific policies.

C) decide what insurance policies to offer.

D) decide what premiums to charge.

Answer: A

Diff: 2

Question Status: Previous edition

6) Which of the following is **not** a service company that would rate the financial condition of insurance companies?

A) A.M. Best

B) Kelly's Blue Book

C) Moody's Investor Services

D) Standard and Poor's Corporation

Answer: B

Diff: 2

Question Status: Previous edition

7) Insurance agents who work for one particular company are called

- A) company agents.
- B) captive agents.
- C) independent agents.
- D) freelance agents.

Answer: B

Diff: 2

Question Status: Previous edition

8) Independent insurance agents

- A) work for just one insurance company.
- B) represent many different insurance companies.
- C) work for only two or three companies.
- D) are self-employed and represent their own companies.

Answer: B

Diff: 2

Question Status: Previous edition

9) The insurance agent's role includes all of the following, except for

- A) assessing the client's risk of loss.
- B) assisting the client in determining the amount of insurance they may need.
- C) working with the insurance company to prepare the client's insurance policy.
- D) assisting the client in filing a claim for coverage.

Answer: A

Diff: 2

Question Status: New

#### 11.4 Auto Insurance

1) Property damage liability covers damages to your car from accidents that are your fault.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Legal expenses incurred by an insurance company when defending you against a lawsuit are deducted from the limits of your liability coverage.

Answer: FALSE

Diff: 2

Question Status: Revised

3) Most states have financial responsibility laws that require individuals who drive cars to purchase a minimum amount of liability insurance.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Medical payments coverage insures against costs of medical care for you and other passengers in your car when you are at fault in an accident.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) If you have good health insurance, you should probably not take out medical payments coverage on your automobile policy.

Answer: FALSE

Diff: 2

Question Status: Previous edition

6) Given the large number of uninsured drivers, uninsured motorist coverage is needed.

Answer: TRUE

Diff: 2

Question Status: Previous edition

7) Collision and comprehensive coverage is optional in most states unless you are financing your car in which case you must have this coverage to protect the lender.

Answer: TRUE

Diff: 2

Question Status: Revised

8) Collision coverage is normally limited to the car itself and not to items that were damaged while in the car.

Answer: TRUE

Diff: 2

Question Status: Previous edition

9) The deductible is the amount of damage to your car that you are responsible for paying before any coverage is provided by the insurance company.

Answer: TRUE

Diff: 1

Question Status: Revised

10) Some credit cards provide you with collision and comprehensive insurance benefits if you use that card to pay for car rentals.

Answer: TRUE

Diff: 2

Question Status: Previous edition

11) In general, the cost of comprehensive and collision insurance is the most expensive part of your automobile policy and represents about 60% of the cost.

Answer: FALSE

Diff: 2

Question Status: Revised

12) Liability insurance coverage would cost more for an expensive car than for an inexpensive car of the same age.

Answer: FALSE

Diff: 3

Question Status: Previous edition

13) Auto insurance fraud is not a problem in states that have implemented no-fault insurance programs.

Answer: FALSE

Diff: 1

Question Status: New

14) States with no-fault insurance programs do not hold specific drivers liable for causing accidents.

Answer: TRUE

Diff: 1

Question Status: Previous edition

15) If you have a car accident in which a person in the other car is injured, the type of insurance that would protect you from financial loss is

A) life insurance.

B) homeowners insurance.

C) health insurance.

D) auto insurance.

Answer: D

Diff: 2

Question Status: Revised

16) The bodily injury liability coverage of your automobile policy will **not** pay for

A) medical expenses of those in the other car for an accident that you caused.

B) lost wages of those in the other car for an accident that you caused.

C) injuries to others in your car due to an accident that you caused.

D) pain and suffering awards to those in the other car for an accident that you caused.

Answer: C

Diff: 2

Question Status: Revised

17) The comprehensive and collision premium of a Rolls-Royce in relationship to a Chevy

A) will be higher because a Rolls-Royce costs more than a Chevy.

B) will be lower because Rolls-Royce drivers will be more careful.

C) depends on the insurance rate structure of the state in which the car is insured.

D) is a poor investment.

Answer: A

Diff: 2

Question Status: Revised

- 18) The 100 in 100/300/50 refers to the
- A) property damage liability coverage.
  - B) limit for bodily injury claims that can be paid to one person.
  - C) amount of the deductible.
  - D) total coverage for an accident.

Answer: B

Diff: 2

Question Status: Previous edition

- 19) The 25 in 50/100/25 refers to \_\_\_\_\_ coverage.

- A) collision
- B) bodily injury liability
- C) comprehensive physical damage
- D) property damage liability

Answer: D

Diff: 2

Question Status: Previous edition

- 20) Which of the following is **not** true about state financial responsibility laws?

- A) They require individuals who drive cars to purchase a minimum amount of liability insurance.
- B) They are the same for all states.
- C) They may require proof of insurance to register a car.
- D) They may require proof of insurance when drivers are involved in an accident.

Answer: B

Diff: 1

Question Status: Revised

- 21) Which of the following would pay for medical care for people who were injured in your automobile as a result of an accident that was your fault?

- A) Medical payments coverage
- B) Bodily injury liability coverage
- C) Collision coverage
- D) Comprehensive coverage

Answer: A

Diff: 1

Question Status: Revised

- 22) Which of the following is **not** true regarding medical payments coverage?

- A) It covers both family and nonfamily members.
- B) It is not recommended or needed if you have health insurance.
- C) It may even cover funeral expenses.
- D) Insurance professionals recommend coverage of about \$10,000 per person.

Answer: B

Diff: 2

Question Status: Revised



23) All of the following statements about uninsured motorist coverage are true **except**

- A) this coverage is recommended since many drivers are uninsured.
- B) it applies to accidents caused by a hit-and-run driver.
- C) it replaces bodily injury liability when you are at fault.
- D) it pays when a driver who is at fault has an insurance company that goes bankrupt.

Answer: C

Diff: 2

Question Status: Previous edition

24) Which of the following statements is **not** true concerning comprehensive and collision insurance?

- A) If you are financing a car, this insurance is required by the lender.
- B) Financially, it is advisable to take out the lowest deductible possible.
- C) You may want to drop this coverage on an older car that is not being financed.
- D) The deductible is really a form of self insurance.

Answer: B

Diff: 2

Question Status: Previous edition

25) Comprehensive coverage would cover financial losses due to

- A) injuries caused by a driver without insurance.
- B) damage to your car in an accident for which you were at fault.
- C) damage to your car caused by wind or hail.
- D) damage to a neighbor's tree caused by your car.

Answer: C

Diff: 1

Question Status: Revised

26) If you have an accident resulting in \$2,000 damage to your car and have \$500 deductible collision coverage, which of the following statements is true?

- A) Your insurance company will pay \$2,000.
- B) You will pay \$1,500.
- C) You will pay the first \$500 and your insurance company will pay \$1,500.
- D) You and your insurance company will split the \$2,000 damage, each paying \$1,000.

Answer: C

Diff: 1

Question Status: Previous edition

27) The amount of damage that you will be required to cover if your car is involved in an accident that is your fault is your

- A) deductible.
- B) co-payment.
- C) premium.
- D) fair share.

Answer: A

Diff: 1

Question Status: Previous edition

- 28) A deductible is an amount
- A) the person at fault will pay.
  - B) not paid by the insurance company.
  - C) if increased will increase the premium.
  - D) mandated by state law.

Answer: B

Diff: 1

Question Status: Previous edition

- 29) A deductible of \$300 requires
- A) the insurance company to pay the first \$300 at 100% of damages.
  - B) you to pay the first \$300 of damages.
  - C) the insurance company to pay the first \$300 at 80% of damages.
  - D) the insurance company of the party at fault to pay.

Answer: B

Diff: 2

Question Status: Previous edition

- 30) Additional coverage on your automobile insurance policy can be purchased for
- A) the cost of a rental car while your car is being repaired.
  - B) the protection of valuables you are carrying in your car.
  - C) the cost of towing, even if the problems are not the result of an accident.
  - D) Both A and C are correct.

Answer: D

Diff: 2

Question Status: Previous edition

- 31) To significantly reduce your automobile insurance premiums and still have adequate coverage, you should
- A) take the minimum levels of liability coverage.
  - B) raise the deductibles on comprehensive and collision.
  - C) waive medical payments coverage.
  - D) waive uninsured motorist coverage.

Answer: B

Diff: 2

Question Status: Previous edition

- 32) In general, the most expensive part of your automobile policy is \_\_\_\_\_ coverage.
- A) liability
  - B) comprehensive and collision
  - C) medical payments
  - D) uninsured motorist

Answer: A

Diff: 2

Question Status: Previous edition

33) Which of the following statements regarding auto insurance is **not** true?

- A) No-fault insurance programs do not hold a specific driver liable for causing an accident.
- B) Exaggerated personal injury claims result in additional insurance expenses of about \$100 million per year.
- C) One reason for high auto insurance premiums is auto insurance fraud.
- D) If you drive a car, you need to have auto insurance.

Answer: B

Diff: 2

Question Status: Revised

34) A common form of auto insurance fraud is

- A) faking an accident or injury.
- B) stealing merchandise from a car.
- C) driving without a valid license.
- D) None of the above.

Answer: A

Diff: 2

Question Status: Revised

35) Of the following statements, which is **not** true regarding no-fault insurance?

- A) Not all states have no-fault insurance.
- B) It helps determine which driver is at fault and which has no fault.
- C) It is intended to avoid costly legal battles.
- D) It does not prevent insurance fraud.

Answer: B

Diff: 2

Question Status: Revised

36) One of the problems with no-fault automobile insurance is that it

- A) results in higher court costs.
- B) results in higher jury awards to victims.
- C) doesn't penalize drivers who cause accidents to the degree that they should be.
- D) hasn't resulted in lower costs to insurance companies or lower auto insurance premiums.

Answer: C

Diff: 2

Question Status: Previous edition

37) Your automobile insurance policy contains policy limits of 200/300/100. If you have an accident in which you are deemed at fault and two people sustain bodily injuries that result in combined claims of \$450,000, how much of the claim will **not** be covered under your insurance policy?

- A) \$250,000
- B) \$150,000
- C) \$350,000
- D) \$450,000

Answer: B

Explanation: B) The middle number, 300, is the combined coverage for all bodily injuries. Therefore, \$150,000 would not be covered by insurance.

Diff: 2

Question Status: Revised

38) If an insurance policy carries a \$250 deductible and an accident results in the following losses, what will be the reimbursement from the insurance company under your collision and comprehensive coverage?

· Replacement of trailer hitch	\$200
· Replacement of rear bumper	\$150
· Replacement of computer being carried on the back seat	\$300
· Replacement of rear windshield	\$100

- A) \$200
- B) \$250
- C) \$450
- D) \$750

Answer: A

Explanation: A)

Trailer hitch	\$200
Rear bumper	\$150
Rear window	\$100
Less deductible	<u>\$250</u>
	<u>\$200</u>

Diff: 2

Question Status: Revised

39) Your car collides with a vehicle that has just run a red light, and your policy limits are 200/300/100. What is the maximum coverage under your policy for damages to the vehicle that you struck?

- A) \$200,000
- B) \$300,000
- C) \$100,000
- D) zero

Answer: D

Explanation: D) Since the other driver was at fault by running a red light, your policy would make no payments to repair the other person's vehicle.

Diff: 2

Question Status: Previous edition

40) Some states have implemented \_\_\_\_\_ insurance programs that do not hold a specific driver liable for causing an accident.

Answer: no-fault

Diff: 1

Question Status: Revised

41) The coverage that is designed to protect you if you cause an accident where the driver or passenger of the other car sustains injuries and sues you is called \_\_\_\_\_.

Answer: bodily injury liability

Diff: 1

Question Status: Revised

42) The \_\_\_\_\_ is the amount that you will need to pay if your car is damaged in an accident that was your fault.

Answer: deductible

Diff: 1

Question Status: Revised

**Use the following two columns of items to answer the matching questions below:**

- A) requires individuals who drive cars to purchase a minimum amount of liability insurance
- B) pays for injuries to you or people in your car in an accident where you (the driver) are at fault
- C) a set dollar amount that you are responsible for paying before any coverage is provided by your insurer
- D) covers damage to your car as a result of theft, fire, vandalism, or various other events
- E) vehicle insurance to cover various injuries, your property, and the property of others
- F) covers damage to your car when you are at fault in an accident

43) deductible

Diff: 1

Question Status: New

44) auto insurance

Diff: 1

Question Status: New

45) collision coverage

Diff: 1

Question Status: New

46) comprehensive coverage

Diff: 1

Question Status: New

47) medical payments coverage

Diff: 1

Question Status: New

48) financial responsibility laws

Diff: 1

Question Status: New

Answers: 43) C 44) E 45) F 46) D 47) B 48) A

49) What do policy limits of 200/300/100 on an automobile insurance policy mean?

Answer: \$200,000 per person injured in an accident, \$300,000 for all bodily injuries combined, \$100,000 to cover damage to the other person's car or property.

Diff: 1

Question Status: Revised

50) What three insurance components do automobile and homeowner's policies usually have in common?

Answer: Liability, medical payments, and property coverage.

Diff: 1

Question Status: Revised

51) In general, which coverage provides higher total dollar coverage?

- A) Medical payments up to \$10,000
- B) Collision coverage
- C) Comprehensive coverage
- D) Liability coverage of 100/300

Answer: D

Diff: 2

Question Status: New

### 11.5 Auto Insurance Premiums

1) Younger drivers, especially males, between the ages of 16 and 25 are more likely to get in accidents and therefore pay higher insurance premiums.

Answer: TRUE

Diff: 1

Question Status: Revised

2) Once drivers are labeled as "high risk," they will not be able to get automobile insurance at any price.

Answer: FALSE

Diff: 2

Question Status: Previous edition

3) Since insurance is a regulated industry, the rates for automobile policies are relatively the same among different companies operating in a state.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) Auto insurance rates are based upon all of the following except your

- A) age.
- B) height and weight.
- C) driving record.
- D) gender.

Answer: B

Diff: 1

Question Status: Revised

5) Auto insurance rates are based upon

- A) whether you keep your car in the garage or not.
- B) your marital status.
- C) the number of miles and the type of driving you do each year.
- D) the condition of your vehicle.

Answer: C

Diff: 1

Question Status: Previous edition

- 6) Auto insurance can be very expensive if you
- A) have a new subcompact car.
  - B) are a male under 25.
  - C) have not taken a driver training course.
  - D) have an older car without air bags.

Answer: B

Diff: 2

Question Status: Revised

- 7) Auto insurance discounts might be given for all of the following, **except**
- A) antilock brakes.
  - B) alarms.
  - C) leather seats.
  - D) airbags.

Answer: C

Diff: 1

Question Status: Revised

- 8) All other things being equal, which of the following factors could lower a person's auto insurance rates?
- A) Living in a small town
  - B) Driving the car to work rather than for pleasure only
  - C) Receiving a parking ticket
  - D) having a poor credit history

Answer: A

Diff: 2

Question Status: Revised

- 9) All of the following may qualify so an applicant for an auto insurance discount, **except**
- A) making high grades.
  - B) completing a driver's training program.
  - C) having several cars insured with the same company.
  - D) being under 25 years old.

Answer: D

Diff: 1

Question Status: Revised

- 10) Which of the following will **not** result in lower auto insurance premiums?
- A) Living in a rural area
  - B) Driving a more expensive car
  - C) Having a high FICO score
  - D) All of the above will reduce your premiums.

Answer: B

Diff: 2

Question Status: Revised



11) The factor that will **not** reduce your insurance rate is

- A) increasing your deductible.
- B) paying all speeding tickets promptly.
- C) purchasing older, less expensive vehicles.
- D) moving to a less risky town.

Answer: B

Diff: 1

Question Status: Previous edition

12) Which of the following would be considered the most high-risk driver?

- A) Nineteen year old female
- B) Nineteen year old male
- C) Twenty-eight year old female
- D) Twenty-eight year old male

Answer: B

Diff: 1

Question Status: Revised

13) If you have a poor driving record, you may be forced to do all of the following **except**

- A) accept the premium of any insurance company willing to insure you.
- B) prove over several years that you have improved your driving habits.
- C) refrain from filing a claim until your driving record has improved.
- D) pay higher insurance premiums.

Answer: C

Diff: 1

Question Status: Previous edition

14) Which of the following may be a reason why an insurance company decides **not** to renew your policy?

- A) You caused an accident as a result of drunk driving.
- B) You did not take the driving training course offered by your insurance company.
- C) Your driver's license was suspended.
- D) Both A and C are correct

Answer: D

Diff: 1

Question Status: Revised

15) You can use the Internet to obtain

- A) estimates on auto insurance rates.
- B) new car prices.
- C) blue book values on used vehicles.
- D) All of the above.

Answer: D

Diff: 1

Question Status: Previous edition

16) List four ways to reduce your auto insurance premiums.

Answer: Any four of the following:

- Buy a less expensive car
- Reduce the mileage you drive each year
- Have a safe driving record
- Take driver's training
- Take advantage of discounts for airbags, anti-lock brakes, alarms, or other safety features
- Be a good student
- Shop around for good rates with different companies
- Raise your deductible amount on comprehensive and collision
- Don't make small claims

Diff: 1

Question Status: Revised

17) Which of the following is the only required coverage if you do not have a lien on your car?

- A) Liability coverage
- B) Medical payments to others
- C) Collision and comprehensive coverage
- D) None of the coverages are required

Answer: A

Diff: 1

Question Status: New

#### 11.6 If You are in an Auto Accident

1) It is possible that some of the expenses you incurred in an accident are not covered by your policy.

Answer: TRUE

Diff: 1

Question Status: Revised

2) If you are in an auto accident, you should leave the scene of the accident to go home and call the police from home.

Answer: FALSE

Diff: 1

Question Status: Revised

3) You are in an accident and it's the other driver's fault but he is not insured. There is no type of coverage to protect you from financial loss in this case.

Answer: FALSE

Diff: 1

Question Status: Revised

4) You are in an auto accident with someone who does not have insurance. You should do all of the following **except**

- A) take pictures.
- B) call the police.
- C) file a claim.
- D) try to settle the claim without involving the police or your insurance company.

Answer: D

Diff: 1

Question Status: Previous edition

5) If your car is in an accident with another person who has no auto insurance, which of the following statements is **not** correct?

- A) Your uninsured motorist coverage will cover you and your car.
- B) Many states in the U.S. will cover you and your car from their insurance fund.
- C) You are not covered if the accident was your fault.
- D) Both B and C are incorrect

Answer: D

Diff: 3

Question Status: New

#### 11.7 Homeowner's Insurance Provisions

1) A cash value home insurance policy pays the actual costs of replacing the damaged property.

Answer: FALSE

Diff: 2

Question Status: Previous edition

2) It is a good idea to list all of your personal assets, estimate the market value of each item, and then film the contents of your house with a video camera to be able to show proof of their existence.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) If your neighbor falls down the steps in your home and sues, you could be held responsible for her injuries.

Answer: TRUE

Diff: 1

Question Status: Revised

4) Homeowner's insurance provides insurance in the event of property damage or personal liability relating to home ownership, but not theft.

Answer: FALSE

Diff: 1

Question Status: Previous edition

5) Which of the following is **not** covered in a standard homeowner's policy?

- A) Lightning hits your house and it burns to the ground.
- B) Your house is broken into and all the furniture is stolen.
- C) The river near your house overflows its bank and washes your house away.
- D) A hailstorm damages the roof of your house.

Answer: C

Diff: 2

Question Status: Revised

6) Which of the following is considered personal property for home insurance coverage?

- A) An automobile
- B) A garage
- C) Furniture
- D) Trees and shrubs

Answer: C

Diff: 2

Question Status: Previous edition

7) Most home insurance policies provide coverage for

- A) earthquake damage.
- B) liability.
- C) flood damage.
- D) additional personal property floaters.

Answer: B

Diff: 2

Question Status: Previous edition

8) Events that are typically not covered by your homeowner's insurance include all of the following, **except**

- A) termites.
- B) bursting of frozen pipes.
- C) earthquakes.
- D) nuclear accidents.

Answer: B

Diff: 2

Question Status: Revised

9) Your home insurance provides for replacement value for personal property losses. Your china hutch was vandalized and completely destroyed. Your hutch cost \$400 four years ago, but a new one will cost you \$600. How much will the insurance company pay?

- A) \$400
- B) \$200
- C) \$600
- D) Nothing, vandalism is not covered.

Answer: C

Diff: 2

Question Status: Previous edition

10) You have cash value coverage for your personal property on your homeowner's policy. A camera that cost you \$300 eight years ago had a life expectancy of 10 years. The camera was stolen, and a new one will cost only \$200. How much will the insurance company pay?

- A) \$60
- B) \$100
- C) \$200
- D) \$300

Answer: A

Diff: 3

Question Status: Previous edition

11) The liability component of your homeowner's policy will cover all of the following situations **except** one. Which situation will **not** be covered?

- A) Your dog bites a guest and the guest sues you.
- B) While your accountant is visiting you, she trips on your carpet and sues you.
- C) Your neighbor who thinks you have promised to trim a tree in his yard sues you for not doing it.
- D) An uninvited salesman walking up your sidewalk trips and falls. He sues you.

Answer: C

Diff: 3

Question Status: Previous edition

12) The additional living expenses component of a homeowner's policy is designed to

- A) pay for temporary housing while your home is repaired from covered damage.
- B) cover damage to your property while you are away from home.
- C) reimburse a homeowner for damage done by a visitor.
- D) pay for medical expenses or people injured on your property.

Answer: A

Diff: 2

Question Status: Previous edition

13) Your home insurance policy has a \$250 deductible. If a small fire causes \$600 damage to your home, what amount of the claim would the insurance company pay?

- A) \$250
- B) \$350
- C) \$450
- D) \$600

Answer: B

Diff: 1

Question Status: Previous edition

14) To cover valuable personal property not adequately covered by your homeowner's policy, you should take out a(n) \_\_\_\_\_ policy.

- A) personal liability
- B) personal articles floater
- C) extra value
- D) umbrella

Answer: B

Diff: 1

Question Status: Revised

15) Under a cash value policy, the loss of a \$600 item with an estimated life of five years that was purchased three years ago and has a replacement cost of \$900 would result in a payment from the insurance company of

- A) \$600.
- B) \$900.
- C) \$240.
- D) \$360.

Answer: C

Explanation: C)

$\$600/5 \text{ years} = \$120 \text{ dep. per year} \times 3 \text{ years} = \$360$

$\$600 - \$360 = \$240 \text{ cash value of lost item}$

Diff: 2

Question Status: Previous edition

16) During an unusually heavy rain, the basement of your house flooded and an antique dresser from the 1860s was destroyed. The dresser was originally purchased for \$1,300 10 years ago and was recently appraised for \$2,600; you recently received an offer from an antique collector for \$3,100. Under a standard homeowner's policy, how much would you receive from your insurance company to cover this loss?

- A) zero
- B) \$1,300
- C) \$2,600
- D) \$3,100

Answer: A

Explanation: A) Since the loss resulted from a flood, which is not covered under a standard policy, no coverage would exist.

Diff: 2

Question Status: Revised

17) A personal scheduled property floater should be added to your homeowner's insurance policy if

- A) you or your spouse has expensive jewelry or watches
- B) you have valuable original art in your home
- C) you own an antique car and keep it in your garage
- D) Both A and B are correct

Answer: D

Diff: 2

Question Status: New

18) A replacement cost rider is important to add to your homeowner's policy because

- A) it replaces property that breaks or otherwise stops working.
- B) in the event of a loss, your property is valued at the cost of replacement regardless of age or depreciation.
- C) it will pay you depreciated value plus inflation for your property loss.
- D) it is not important and is an expensive but low value rider.

Answer: B

Diff: 2

Question Status: New

#### 11.8 Homeowner's Insurance Premiums

1) A higher deductible reduces the amount of coverage provided by homeowner's insurance, and therefore results in a lower insurance premium.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) The best way to reduce your homeowner's insurance premiums is to

- A) insure your home for only 60% of its value, since it is unlikely to be completely destroyed.
- B) drop coverage for medical payments.
- C) increase deductibles.
- D) eliminate liability coverage.

Answer: C

Diff: 2

Question Status: Previous edition

3) All of the following actions are possible ways to reduce your homeowner's insurance, **except**

- A) installing better locks or a security system.
- B) not making small claims against your policy.
- C) changing insurance companies whenever you renew your policy.
- D) shopping around and getting quotes from several companies.

Answer: C

Diff: 1

Question Status: Revised

4) Homeowners insurance premiums are heavily influenced by all of the following **except**

- A) number of children who live in the home.
- B) amount of the deductible.
- C) location of the residence.
- D) degree of protection desired.

Answer: A

Diff: 1

Question Status: Previous edition

5) List two ways to reduce your homeowner's insurance premiums.

Answer: Any two of the following:

- Increase your deductible
- Improve protection for your home with better locks, alarms, shutters, etc.
- Use one insurer for all types of insurance to get a discount
- Stay with the same company at renewal time if the rate is good
- Shop around for good rates
- Don't make small claims

Diff: 2

Question Status: Revised

6) Before you increase your homeowner's insurance deductible you should evaluate

- A) if you are going to have a claim in the next year or two.
- B) if you can afford to "self insure" the deductible amount in the event of a loss claim.
- C) your auto insurance liability levels and liability deductible.
- D) Stop; it is never a good idea to increase your deductible.

Answer: B

Diff: 2

Question Status: New

## 11.9 Renter's Insurance

1) Renter's insurance covers your possessions and the structure of the house or condo you are renting.

Answer: FALSE

Diff: 2

Question Status: Previous edition

2) While renter's insurance does protect your property, it does not cover liability in the event that a friend or neighbor is injured while at your apartment.

Answer: FALSE

Diff: 1

Question Status: Previous edition



3) Which of the following is **not** covered by renter's insurance?

- A) Medical expenses for injuries to visitors
- B) Replacement of personal items such as clothing
- C) Fire damage to the building's roof
- D) Cost of legal action due to personal liability claims

Answer: C

Diff: 2

Question Status: Previous edition

4) Which of the following is covered by renter's insurance?

- A) Damage to a stove that the landlord purchased before you moved in.
- B) Your dog bites the tenant who lives across the hall from you.
- C) A collapsed roof.
- D) Stereo system stolen from the car you are leasing.

Answer: B

Diff: 2

Question Status: Revised

5) Which of the following is true of renter's insurance?

- A) You only need to buy it if you have possessions of considerable value.
- B) It will not cover your liability if a picture falls off the wall and injures a guest in your apartment.
- C) Your renter's insurance covers only your own property, not the property of your landlord.
- D) Because premiums are small, most people who need it have renter's insurance.

Answer: C

Diff: 2

Question Status: Previous edition

6) The insurance that will cover your possessions if you lease an apartment is called \_\_\_\_\_.

Answer: renter's insurance

Diff: 1

Question Status: Revised

7) Which of the following is not correct?

- A) Renter's insurance is important if you own an expensive TV and game center.
- B) Renter's insurance covers your possessions and provides liability coverage for you.
- C) Your auto insurance policy will cover valuable possessions if you keep them in your garage with your car.
- D) Renter's insurance does not cover the structure of your apartment or rental home.

Answer: C

Diff: 2

Question Status: New

## 11.10 Umbrella Personal Liability Policy

1) A personal umbrella policy provides liability coverage to replace coverage that would normally be provided by an automobile or homeowner's policy.

Answer: FALSE

Diff: 2

Question Status: Revised

2) Which of the following is **not** a characteristic of an umbrella policy?

A) It provides additional liability insurance.

B) It replaces other policies.

C) It protects wealth.

D) It is optional coverage.

Answer: B

Diff: 2

Question Status: Previous edition

3) An umbrella policy is designed to cover

A) additional buildings on your property.

B) property when traveling away from home.

C) major personal liability suits.

D) flood damage.

Answer: C

Diff: 1

Question Status: Previous edition

4) Individuals who need additional protection often supplement their auto and homeowner's policy with a(n) \_\_\_\_\_ personal liability policy.

Answer: umbrella

Diff: 1

Question Status: Revised

5) The most important reason to purchase an umbrella policy is

A) supplement the liability coverage of your auto insurance policy.

B) supplement the liability coverage fo your homeowner's insurance policy.

C) protect your net worth.

D) A, B and C are all very important reasons.

Answer: D

Diff: 2

Question Status: New

### 11.11 How Insurance Fits within Your Financial Plan

1) Having adequate amounts of auto and homeowner's insurance affects your financial plan by

- A) limiting your liability to others.
- B) protecting your net worth and making it larger in the future.
- C) making you less likely to be sued.
- D) All of the above

Answer: B

Diff: 2

Question Status: Previous edition