

**SECTION C**  
**MULTIPLE-CHOICE QUESTIONS**

## Multiple Choice Questions

## Chapter 1

1. The term "hazard" refers to
  - (a) the same thing as the term peril.
  - (b) a condition that increases the chance of loss.
  - (c) uncertainty regarding loss.
  - (d) the same thing as probability of loss.
2. From the viewpoint of society and the economy, the most desirable means of dealing with risk is
  - (a) transfer.
  - (b) retention.
  - (c) loss prevention.
  - (d) sharing.
3. Hazards are usually classified into three categories. They are:
  - (a) perils, risks, and uncertainties.
  - (b) physical, mental, and moral.
  - (c) moral, morale, and physical.
  - (d) personal, property, and liability.
4. To be technically correct, we should define "fire" as
  - (a) a peril.
  - (b) a hazard.
  - (c) a risk.
  - (d) any of the above is equally correct.
5. Pure risk is characterized by
  - (a) a chance of loss and a chance of gain.
  - (b) a chance of loss or no loss only.
  - (c) the chance of gain or no loss only.
  - (d) none of the above.
6. The distinction between fundamental and particular risks is important because
  - (a) normally only particular risks are insurable.
  - (b) whether a risk is fundamental or particular may determine how society will deal with it.
  - (c) fundamental risks are a source of gain to society.
  - (d) none of the above.
7. The possibility of loss resulting from a flood is an example of
  - (a) a static fundamental risk.
  - (b) a dynamic fundamental risk.
  - (c) a static particular risk.
  - (d) a dynamic particular risk.
8. Unemployment would generally be considered to be
  - (a) a static fundamental risk.
  - (b) a dynamic fundamental risk.
  - (c) a static particular risk.
  - (d) a dynamic particular risk.

9. The definition of "risk" suggested in the text views risk as
- (a) a condition of the real world.
  - (b) a state of mind.
  - (c) subjective uncertainty.
  - (d) none of the above.
10. A peril, as distinguished from a hazard, is defined as
- (a) a condition that increases the likelihood of loss.
  - (b) the cause of a loss.
  - (c) the same thing as risk.
  - (d) none of the above.
11. A business firm with an inventory of obsolete stock and high notes payable might represent
- (a) a moral hazard.
  - (b) a morale hazard.
  - (c) a legal hazard.
  - (d) none of the above.
12. Pure risks are generally classified as
- (a) physical risks, moral risks, and morale risks.
  - (b) fundamental risks, dynamic risks, and particular risks.
  - (c) speculative risks, enterprise risks, and financial risks.
  - (d) personal risks, property risks, liability risks, and risks arising out of the failure of others.
13. Because she knows she has insurance to cover losses from theft, Jones rarely locks the door to her house. Her behavior is an example of
- (a) moral hazard.
  - (b) morale hazard.
  - (c) physical hazard.
  - (d) none of the above.
14. A fire caused \$50,000 damage to Smith's house, and the family was forced to spend \$10,000 to live in rented housing while it was being repaired. Which of the following best describes Smith's loss?
- (a) direct property loss of \$60,000
  - (b) direct property loss of \$50,000, uninsured loss of \$10,000
  - (c) direct property loss of \$50,000, indirect property loss of \$10,000
  - (d) direct property loss of \$50,000, liability loss of \$10,000

15. In property insurance terminology, all the following are considered hazards except:
- (a) a fire which is started in a waste paper basket.
  - (b) a steam iron left on unattended.
  - (c) matches left within reach of small children.
  - (d) oily rags stored near a heater.
16. Pure risk is considered distasteful by most persons because
- (a) it can be a source of worry and concern.
  - (b) there is nothing you can do about it.
  - (c) most pure risks result in losses.
  - (d) none of the above.
17. The terrorist attack on the World Trade Center on September 11, 2001 led to a debate over whether such risks are
- (a) dynamic or static.
  - (b) pure or speculative.
  - (c) fundamental or particular.
  - (d) none of the above.
18. The hazard that reflects the tendency in some jurisdictions for judges and juries to favor a plaintiff in litigation is properly classified as
- (a) a moral hazard.
  - (b) a morale hazard.
  - (c) a legal hazard.
  - (d) none of the above.
19. Classify the following as pure or speculative risk:
- (1) Change in market price for Farmer Smith's crops
  - (2) Change in consumer demand for ABC's products
  - (3) Collision damage to Jones' car
- (a) (1) speculative, (2) pure, (3) pure
  - (b) (1) speculative, (2) speculative, (3) pure
  - (c) (1) pure, (2) speculative, (3) pure
  - (d) none of the above
20. According to the FBI, the fastest growing form of white collar crime is.
- (a) substance abuse.
  - (b) arson.
  - (c) identity theft.
  - (d) insurance fraud.