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**SECTION I: Multiple Choice (2 points each)** Choose the one best answer from the selections provided and place the letter corresponding to that answer in the space to the left of the question number.

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- \_\_\_\_\_ 1. Which of the following is an example of vicarious liability?
- a. A person being responsible for damages created in an accident that was their fault.
  - b. A person being responsible for damages caused by their negligence.
  - c. A person being responsible for damages that their child caused.
  - d. All of the above are examples of vicarious liability.
- \_\_\_\_\_ 2. Elizabeth refuses to leave her house in order to not come into contact with germs and therefore not catch the swine flu. This is an example of which risk management technique?
- a. Risk Transfer.
  - b. Risk Avoidance.
  - c. Risk Assumption.
  - d. Risk Reduction.
- \_\_\_\_\_ 3. Earnest money
- a. is the portion of the purchase price of real estate that is paid when a real estate purchase contract is signed.
  - b. can only be collected when a real estate purchase is more than \$150,000.
  - c. is never refundable under any circumstance.
  - d. Both "a" and "c" are true.
- \_\_\_\_\_ 4. Which of the following is a tax deduction?
- a. Interest paid on a mortgage loan.
  - b. Charitable deductions.
  - c. Property taxes paid.
  - d. All of the above are tax deductions.
- \_\_\_\_\_ 5. Which of the following types of dwelling discussed in class would be purchased with no ownership interest in attached real estate?
- a. Condominium.
  - b. Duplex.
  - c. Townhouse.
  - d. Single Family Home.
- \_\_\_\_\_ 6. Private Mortgage Insurance
- a. protects the lender in the event of default on a high loan-to-value mortgage loan.
  - b. is more commonly known as homeowner's insurance.
  - c. must be released when the loan-to-value ratio on a home loan is paid down to 80%.
  - d. Both "a" and "c" are true.
- \_\_\_\_\_ 7. Which document is a third party estimate of the value of real estate?
- a. HUD Settlement Statement.
  - b. Good Faith Estimate.
  - c. Right of Rescission notice.
  - d. Appraisal.

- \_\_\_\_\_ 8. During class we looked at two web sites that provide values of used automobiles (NADA and Kelly Blue Book). We looked up the value of the same automobile on both sites. What did we learn?
- Both sites gave the same value to the automobile.
  - The sites gave different values to the automobile.
  - The sites asked for different amounts of detail regarding the automobile.
  - Both "b" and "c" are true.
- \_\_\_\_\_ 9. Tax deductions
- reduce taxable income.
  - reduce actual tax owed.
  - increase actual tax owed.
  - increase taxable income.
- \_\_\_\_\_ 10. Which of the following is true regarding marginal tax rates?
- Higher amounts of income are taxed at higher rates than lesser amounts of income.
  - All income is taxed at the same rate, but people who earn less income pay lower total taxes.
  - Marginal tax rates are less than average tax rates for most taxpayers.
  - Marginal tax rates are not used in the United States.
- \_\_\_\_\_ 11. John always drives the speed limit and wears his seatbelt when he drives a car. Which risk management method is he using?
- Risk Transfer.
  - Risk Avoidance.
  - Risk Reduction.
  - Risk Acceptance.
- \_\_\_\_\_ 12. When you purchase a stock
- You have given a loan to the company.
  - You must supply fingerprints and financial records to the FBI for a background check.
  - You have the right to vote on certain company decisions.
  - None of the above are true.
- \_\_\_\_\_ 13. What is the counter-offer (in terms of a real estate purchase)?
- The amount you first propose to pay on a real estate purchase.
  - The amount that sellers originally ask for real estate.
  - The agreed upon price in a real estate sale.
  - The amount that sellers ask if they refuse a potential buyer's initial offer in a real estate sale.
- \_\_\_\_\_ 14. Which legal document transfers ownership of real estate?
- Mortgage.
  - Title opinion.
  - Deed.
  - Sales contract.

- \_\_\_\_\_ 15. Which of the following best describes a 5/5 ARM with 2/5 caps?
- It is an adjustable rate mortgage with an initial interest rate in effect for the first 5 years.
  - It is an adjustable rate mortgage whose rate can change every 5 years after the first change.
  - The interest rate cannot increase by more than 2 percentage points at the time of any one rate change.
  - All of the above are true.
- \_\_\_\_\_ 16. Arbitration involves
- a third party helping to negotiate a settlement in a dispute between two parties.
  - a third party giving a binding decision in a dispute between two parties.
  - a court ordered resolution to a dispute between one party and multiple complainants with the same grievance.
  - All of the above.
- \_\_\_\_\_ 17. Which of the following best describes manufactured homes?
- They tend to cost more than traditional single family houses.
  - They tend to appreciate more rapidly than traditional houses.
  - It is possible to purchase a mobile home with or without real estate.
  - All of the above are true.
- \_\_\_\_\_ 18. When a bond is "callable"
- the owner may convert it to common stock at any time they desire.
  - the bond's rate will increase if market rates increase.
  - the issuer may pay the bond off early if it desires.
  - there is no such thing as a "callable" bond.
- \_\_\_\_\_ 19. Medicare Part A covers
- hospital visits.
  - office visits.
  - prescription drugs.
  - Both "b" and "c" are true.
- \_\_\_\_\_ 20. Wendy's stock gained \$25 in value during the year. It paid a \$5 dividend. The stock was worth \$120 at the beginning of the year (and of course \$145 at the end of the year). The ROI for the stock was
- 20.69%.
  - 17.24%.
  - 20.83%
  - 25.00%.
- \_\_\_\_\_ 21. The invoice price on an automobile
- is the suggested selling price on the "sticker".
  - is the price the dealer pays for the automobile.
  - is always greater than the MSRP.
  - is the price that the buyer actually pays after negotiation.

- \_\_\_\_\_ 22. What does an accidental death benefit typically mean in regards to a life insurance policy?
- a. It causes premiums to fall because of the risk reduction.
  - b. It is a policy rider that means that the policy will only pay if the death is the result of an accident.
  - c. It will often double or even triple the payment to beneficiaries if the insured's death is the result of an accident.
  - d. None of the above are true.
- \_\_\_\_\_ 23. Which of the following best summarize the article on health care distributed in class?
- a. Socialized medicine is the only way to deliver affordable health care in the United States.
  - b. Personal responsibility and self-control would help lower health care costs.
  - c. Free markets will eventually deliver the best health care solution.
  - d. Both "b" and "c" are true.
- \_\_\_\_\_ 24. Which of the following points was made in the article on health care distributed in class?
- a. Abolishing patents will only make pharmaceutical companies less likely to introduce new medicines.
  - b. Abolishing patents will lead to cheap and abundant new medicines.
  - c. Abolishing patents will allow drugs to make it to poor nations (lesser developed countries) more quickly.
  - d. None of the above are true.
- \_\_\_\_\_ 25. Which document details previous property transfers, recorded mortgages and liens on a piece of real estate?
- a. Mortgage.
  - b. Title opinion.
  - c. Deed.
  - d. Sales contract.

**SECTION II - Essay/Problem/Short Answer**

Use the information provided to completely answer the following questions. Points as indicated.

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1. Complete four out of the following five short-problem questions. Write "OMIT" by the one you choose not to answer. If you answer all five, I will only grade the first four. (5 points each)

What does a "collision" endorsement on an automobile insurance policy cover?

List and describe two reasons discussed in class that help explain the increased cost of health care -

If a person's aggregate marginal tax rate is 30%, how much gross income must they earn in order to have \$700 net income?

If you decide to lease a car as opposed to buying one, what are two things you should be concerned about as you use the car to avoid having to pay extra when the lease expires?

List and explain three negative aspects of renting a home -

2. List and describe the 4 methods of risk management. Give an example of each method as well. **(12 points)**

3. Briefly answer the following questions regarding insurance topics. (Points as indicated)

What part of an insurance policy can you adjust to lower the price of your insurance without altering the amount of insurance coverage that you have? (2 points)

What is the advantage that whole life insurance has over term life insurance? (2 points)

Is the money that a person contributes to a flex spending account taxed? (2 points)

Does the owner of a health savings account (HSA) lose unused funds at the end of the plan year? (2 points)

Can a HSA be used for "dependent care expenses"? (2 points)

What "type" of health insurance plan must someone have in order to have a HSA? (2 points)

4. Briefly answer the following questions regarding topics discussed in class.  
(2 points each)

Either a stock or a bond (one of the two) is guaranteed to pay cash to the owner on at least an annual (if not a semi-annual) basis. Which of the two (stock or bond) is it?

List two advantages to investing in real estate-

What is an excise tax?

Which two groups pay social security and medicare tax?

You want to lessen your income tax liability. You have a choice between paying rent or purchasing a home (which will require borrowing money). Which should you do and why?