**CHAPTER 32-INSURANCE**

**TRUE/FALSE**

1. In purchasing life insurance, Kelsey concealed the fact that she has a muscular disease. The insurance company can void the policy if the muscular disease is found to be a material fact.

2. Victor purchased $1 million of insurance on his home even though the house was only worth $500,000. Victor's house was destroyed by lightning. Under the insurance policy, Victor will be able to recover $1 million.

3. April purchased a life insurance policy on herself. On her death, the proceeds of the insurance were to be paid to her minor child, Ryan. Ryan is the beneficiary.

4. Bob issued a "binder" on behalf of his company, All Faith Insurance Co., to Ian to insure his house. This binder constitutes final acceptance of Ian's application.

5. Crown Bakeries, Inc. has an insurable interest in Brian, its head pastry chef.

6. Universal life insurance is the same thing as whole life insurance.

7. Term life insurance premiums are paid only for a certain length of time, or “term’ but the coverage lasts for the insured’s entire life.

8. The simplest, cheapest life insurance option is whole or straight life.

9. Disability insurance is important because the average person is seven times more likely to be disabled for at least 90 days than to die before age 65.

10. The owner, the insured and the beneficiary are all the same person in an insurance contract.

11. An insurance policy must meet all the common law requirements for a contract.

12. Jose and Juanita are first cousins. Jose lives in San Francisco, California; Juanita lives in Toronto, Canada. The two have met only once in life, and may never meet again. Nonetheless, because they are blood relatives, Juanita has an insurable interest in Jose's life.

13. Insurance contracts are not required to be in writing because they can be fulfilled in less than one year but some states require they be in writing.

14. A person always has an insurable interest in his own life.

15. A lie on an insurance application will make the policy void even if the lie does not relate to the actual loss insured against.

**MULTIPLE CHOICE**

1. Insurance obtained by a limited partnership on the life of the general partner would be:

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| a. | double indemnity insurance, because both the limited partnership and the general partner are insured. |
| b. | key-person insurance, because the general partner is a key person, contributing a great deal to making the business successful. |
| c. | a co-insurance policy because both the limited partnership and the general partner are insured. |
| d. | whole life or straight life insurance which builds a cash value. |

2. Which of the following is generally covered under casualty insurance?

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| a. | Employee theft or embezzlement. |
| b. | Disability. |
| c. | Transportation insurance. |
| d. | Vandalism. |

3. An insurance policy must meet which of the following?

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| a. | State statutory requirements for tort law. |
| b. | Federal statutory requirements for tort law. |
| c. | Common law requirements for contracts. |
| d. | Common law requirements for tort law. |

4. Sarah has car insurance. While driving her automobile, Sarah negligently ran a red light and hit Vi's car. Which type of coverage will pay for the damage done to Vi's car?

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| a. | Liability insurance. |
| b. | Comprehensive insurance. |
| c. | Collision insurance. |
| d. | Uninsured motorist insurance. |

5. Abraham has just purchased his first car. His bank, First State Bank, loaned him the money to buy the car and has required him to purchase insurance to protect the car as the collateral for the loan. Which basic types of coverage should Abraham buy to satisfy the bank requirement and to protect himself from the risks of operating an automobile?

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| a. | Collision coverage only. |
| b. | Collision and comprehensive coverage only. |
| c. | Collision, uninsured motorist, and comprehensive coverage. |
| d. | Collision, uninsured motorist, comprehensive, and liability coverage. |

6. Pamela applies for a life insurance policy with Forever Young Insurance Company. When completing the application form about past surgeries, Pamela forgot about a past outpatient surgery when she had an infected hang-nail removed and her toe treated. One year after issuing the policy, Pamela died suddenly from a brain aneurysm. Forever Young denies payment under the policy based on misrepresentation. If Pamela's sister, Paula, sues Forever Young, she will:

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| a. | win, because once an application has been accepted, an insurer may not use a misrepresentation on the application to avoid liability. |
| b. | win, because Pamela's misrepresentation was not a material fact and did not increase Forever Young's risk in insuring Pamela's life. |
| c. | lose, because Pamela's application contained a misrepresentation of material fact. |
| d. | lose, because an insurer can always use any misrepresentation on an application to avoid paying. |

7. Under which of the following does the insured have a right to borrow against his policy.

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| a. | Term life policy. |
| b. | Whole life policy. |
| c. | Disability Insurance |
| d. | Annuity contract. |

8. Darcy buys a life insurance policy on her own life, under which she pays the annual premiums. The insurance is issued for a specific period, but is renewable for similar periods. Darcy is covered only as long as she makes the payments. There is no cash value portion to the policy. Darcy probably owns:

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| a. | whole life insurance. |
| b. | key-person life insurance. |
| c. | term life insurance. |
| d. | an annuity. |

9. Which of the following insurance policies continue for a stated period of time with the premiums increasing with the age of the insured?

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| a. | Double indemnity. |
| b. | Term insurance. |
| c. | Annuity contract. |
| d. | Whole Life |

10. Liability policies, such as personal liability, professional malpractice, or business liability insurance, do not protect the insured against:

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| a. | a personal injury on the insured's property, such as the mail carrier who slips and falls on the owner's sidewalk. |
| b. | There own intentional torts. |
| c. | a negligent act or omission by the property owner. |
| d. | someone injured by the insured away from home or business. |

11. A policy that makes payments to the owner monthly for her entire life is called:

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| a. | whole life insurance |
| b. | universal life insurance |
| c. | an annuity |
| d. | disability insurance |

12. Health insurance plans that specify that the patient can be treated only by doctors in the organization are called:

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| a. | Health Maintenance Organizations |
| b. | Health Management Options |
| c. | Pay for Service Plans |
| d. | Point Source Plans |

13. Insurance experts recommend that workers carry disability insurance to replace of their income.

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| a. | 50% |
| b. | between 60% and 75% |
| c. | 100% |
| d. | between 75% and 95% |

14. Liability insurance would cover:

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| a. | injuries sustained in a fight on your property |
| b. | damage done by a drunk driver |
| c. | intentional poisoning committed on your property |
| d. | an injury to a guest on your property caused by a tree limb falling on them |

15. Which of the following is NOT a type of coverage in automobile insurance?

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| a. | Collision |
| b. | Comparative |
| c. | Liability |
| d. | Uninsured motorist |

**ESSAY**

1. Insurance policies often contain a covenant of good faith and fair dealing. Even if the clause is not in the policy, often courts will imply it. Explain the covenant of good faith and fair dealing and provide an example illustrating when an insurance company might breach this covenant.

2. Most Americans spend a considerable percentage of their disposable income on insurance. What can you do to reduce this expense?

3. Discuss the pros and cons of whole life (or straight life) insurance.

4. Discuss the rules for insurable interests.