

True/False

Indicate whether the sentence or statement is true or false.

- 1. Some of the issues that the Affordable Health Care Act are attempting to address are: (1) the rising cost of health care in the US, (2) the large segment of the US population of around 49 million that are not covered under a health insurance plan, and (3) elimination of pre-existing conditions by insurers that allows them to avoid coverage for those seeking insurance.
- 2. Major medical insurance is a supplement to your existing health insurance coverage that pays for catastrophic medical bills beyond those covered under basic health insurance offered under a Preferred Provider Organization [PPO] or HMO plan.
- 3. The co-insurance or co-payment provision in your health insurance plan represents the amount you will pay for the medical treatment you receive from your physician.
- 4. Property inventories are unimportant to identify insurance needs involving what should to be insured, because you don't have to substantiate what is lost in order to file a claim and receive a settlement from your insurer.
- 5. Losses caused by floods to homeowners are not covered in a standard homeowners' policy because most homes that face property losses due to flooding can obtain coverage through the federal government's own flood insurance program.
- 6. Liability claims may result from alleged act of negligence on the part of a homeowner due to the failure to provide a standard level of care when owning property.
- 7. Nancy's house has been completely destroyed by fire. Prior to the accident, the house had a value of \$100,000. Nancy had two separate policies totaling \$60,000 each. She may collect \$60,000 from each insurance company.
- 8. Investing and speculating are two entirely different activities, investing represents the deployment of funds in an activity where there is a low risk of losing principal, whereas, speculation involves placing funds in an enterprise where there is great risk to losing those dollars.
- 9. From a financial planning standpoint, two prerequisites to investing are adequate insurance and liquidity; you can not invest funds long term unless you are fully covered for unexpected losses and you have sufficient funds to meet current expenses.
- 10. There are more companies traded in the over-the-counter market than on any exchange; organized exchanges such as the NYSE or the AMEX limit their listed securities and have less companies than say the NASDAQ to trade.
- 11. John and Mary Smith own 500 shares of Archer Daniels Midland [ADM] stock. After the company pays a 6 percent stock dividend, John and Mary will own 530 shares of ABE stock.

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- 12. A type of health insurance organization that employs a set of doctors to provide health care services to member patients from a central facility is called a:
 - a. Group HMO
 - b. Indemnity Plan
 - c. PPO

- d. Point of Sale Health program
 - e. Networked Indemnity Health Provider Organization
- ___ 13. OASDHI, sometimes called social security, actually refers to the following:
- a. Old-Age, Survivor's, Disability, and Hospital Insurance.
 - b. Old-Age, Survivors, Disaster, and Home Nuring Insurance.
 - c. Old-Age, Survivor's, Disability, and Health Insurance.
 - d. Old-Age, Singles, Disability, and Hospital Insurance.
 - e. Old -Age, Singles, Disability and Health Insurance
- ___ 14. Given a \$250 annual deductible, a \$5,000 lid on the coinsurance, 80/20 coinsurance, and a \$250,000 policy limit, how much of a \$27,500 medical bill will be paid by the insured?
- a. \$ 250
 - b. \$4,750
 - c. \$5,450
 - d. \$5,250
 - e. \$5,700
- ___ 15. In order to qualify for disability insurance under social security, and one similar to other disability policies employing a restrictive definition of diability is that a person must be
- a. unable to carry out the duties of the current job.
 - b. unable to carry out the duties of any job.
 - c. ill for at least two years.
 - d. willing to undergo rehabilitation.
 - e. none of these
- ___ 16. Factors to consider when selecting a health insurance plan is (are):
- a. Cost of the plan in relation to your choice of doctor
 - b. Types of coverage you need to have and how well the plan fits those needs
 - c. The impressive nature of the doctor and hospital marketing program to extol the fast, friendly care provided to patients regardless of cost and need
 - d. All of the above
 - e. Only (a) and (b)
- ___ 17. The principle of _____ states that an insured should not be compensated by an insurance company in an amount exceeding the economic loss.
- a. subrogation
 - b. insurable interest
 - c. coinsurance
 - d. indemnity
 - e. utmost good faith
- ___ 18. Coinsurance is a policy provision to discourage the policyholder from being
- a. overinsured.
 - b. underinsured.
 - c. insured only if specified by lending agency.
 - d. insured with more than one company.
 - e. insured by government agencies.
- ___ 19. The form of homeowner's insurance that is incorrectly paired with the insured is
- a. HO-1, homeowner.
 - b. HO-2, homeowner.
 - c. HO-3, renter.
 - d. HO-8, homeowner.
 - e. HO-6, condominium owner.
- ___ 20. Section I of the homeowner's insurance policy covers

- a. the home only.
 - b. the house, an RV, small boat and the garage.
 - c. negligence of an insured.
 - d. the home, its contents, apurtenant structures such as a garden shed, and additional living expenses if you need to live somewhere else while your home is being restored after an insured loss.
 - e. negligence of the neighbor and the house next door.
- _____ 21. Your auto liability insurance shows policy limits of \$100,000/\$300,000. This means
- a. \$100,000 would be paid to the people in your automobile and the \$300,000 to passengers in the other car.
 - b. \$100,000 is the limit per individual with \$300,000 divided equally between the remaining passengers.
 - c. \$100,000 limit per individual with a \$300,000 limit per accident.
 - d. \$100,000 limit per individual with \$300,000 being paid to the driver of the other car.
 - e. none of the above.
- _____ 22. To reduce auto insurance premiums as your car depreciates in value, you should consider self-insuring which of the following risks?
- a. bodily injury liability
 - b. collision
 - c. property damage liability
 - d. comprehensive (other than collision)
 - e. b and d
- _____ 23. In order to collect under uninsured motorists coverage, three specific conditions must be in effect. They are:
- a. another motorist was at fault; this motorist has no available insurance coverage; and damages were incurred.
 - b. another motorist was at fault; this motorist has insurance coverage; and damages were incurred.
 - c. you were at fault; the other motorist has insurance coverage; and damages were incurred.
 - d. you were at fault; the other motorist has no available insurance coverage; and damages were incurred.
 - e. either a or d
- _____ 24. Your car is damaged by fire while parked in your garage. Protection would be provided by
- a. comprehensive (other than collision) auto coverage.
 - b. property damage liability coverage.
 - c. homeowner's personal property coverage.
 - d. homeowner's dwelling unit coverage.
 - e. auto collision coverage.
- _____ 25. Buying _____ would not be considered an investment, because it depreciates over time and does not generate income to the purchaser while it is being held
- a. common stock
 - b. corporate stock
 - c. shares in a mutual fund
 - d. gold
 - e. an automobile
- _____ 26. The SIPC provides protection to the investor from
- a. declining security prices and loss due to poor investment advice
 - b. low or missing dividend payments due to poor management from a compnay you've invested in
 - c. brokerage firm failure where you lose securities that were in your investment account
 - d. using margin to buy securities into your account

- e. margin calls when selling shares short and the security increases in price
- ___ 27. Which of the following would be a true statement about short sales?
- a. Short selling involves very little risk, particularly when the stock market is going up
 - b. It is easy to set up a short sale, because you don't need to have a margin account
 - c. Can result in enormous profits when a stock goes up in value, because a short seller can sell the appreciated security and buy that same security when it was a lower price several months earlier
 - d. You can short a stock on the day its price declines because under such circumstances you are allowed to take immediate profits as a speculator.
 - e. Short selling can involve a great deal of risk, because you are selling a stock at today's price with an agreement that you will purchase it to cover your position sometime in the future. If the stock continues to rise, you will incur losses which will require you to put more money in the form of margin into your brokerage account.
- ___ 28. Under the 1933 and 1934 SEC Acts, the SEC requires corporations to issue _____ describing the firm and the security issue it wishes to sell, when going to market with an initial public offering like the one recently done for Facebook. .
- a. an advertisement
 - b. a prospectus
 - c. an underwriting journal
 - d. a dealer newsletter
 - e. none of these
- ___ 29. General Electric [GE] stock has a long term beta of 1.0; so on average if the market goes up by 8%, the value of GE common stock should:
- a. increase by 8% along with the market
 - b. decrease by 8% in a stock price movement counter to the market
 - c. increase 1% more than the market.
 - d. decline 1% less than the market
 - e. stay the same due to market uncertainty
- ___ 30. If market interest rates go up, the price of a bond will:
- a. sell at its originally issues par value.
 - b. decline
 - c. sell above par value.
 - d. go up initially and then return to par value
 - e. none of these.
 - e. any of these may be correct depending on unforeseen circumstances
- ___ 31. John Smith is in the 28 percent tax bracket. If he were to purchase a \$1,000 municipal bond that had a stated interest rate of 6.9%, the taxable equivalent yield would be
- a. 6.90%.
 - b. 8.261%.
 - c. 9.583%.
 - d. 12.105%.
 - e. 14.625%.
- ___ 32. Two years ago you bought 100 shares of Wendy's[WEN] for \$3 per share for a total investment of \$300. You received a dividend at the end of each year of \$4.50. Today you decide to sell your 100 shares of Wendy's for \$750 [i.e., \$7.50/share]. What was your compound rate of return on your investment for the 2 years you held this stock?
- a. 106.15%.
 - b. 75.50%.
 - c. 59.33%.
 - d. 10.27%.
 - e. 8.43%.

- _____ 33. Sunshine Mining Bonds have a \$1,000 face value, pay \$95 annual interest, mature in 2004, and are currently quoted at \$1,302.50. The coupon rate of interest is
- a. 8.500%.
 - b. 9.500%.
 - c. 13.025%.
 - d. 13.052%.
 - e. can't tell from the information given.

TRUE/FALSE

1. T
2. T
3. T
4. F
5. T
6. T
7. F
8. T
9. T
10. T
11. T

MULTIPLE CHOICE

12. A
13. C
14. D
15. B
16. E
17. D
18. B
19. C
20. D
21. C
22. E
23. A
24. A
25. E
26. C
27. E
28. B
29. A
30. B
31. C
32. C
33. B