

# Chapter 33: Risk Management & Insurance Basics

Practice identifying risks and selecting appropriate management strategies

## Part 1: Identifying Types of Risk

### Exercise 1: Categorizing Risks

Classify each risk as Personal, Property, Liability, or Financial:

Situation	Type of Risk
Your laptop is stolen from your car	
You lose your job due to company layoffs	
Someone trips on your icy sidewalk	
Your stock investments drop 30% in value	
You break your leg playing basketball	
You accidentally damage a friend's phone	

## Part 2: Applying Risk Management Strategies

### Scenario 1: New Driver

Maya just got her driver's license and will be driving to school and work. Identify which risk management strategy she should use for each situation:

Situation	Strategy (A/R/A/T)	Explanation
Potential damage to her car in an accident		
Driving during a severe thunderstorm		
Minor scratches in parking lots		
Distracted driving while using phone		

**Hint:** A = Avoidance, R = Reduction, A = Acceptance, T = Transfer

### Scenario 2: Risk Strategy Selection

For each risk below, select the BEST management strategy and explain why:

- a) Risk of your \$1,200 laptop being stolen:

Strategy:

Why this strategy:

- b) Risk of getting a minor cold during flu season:

Strategy:

Why this strategy:

- c) Risk of a house fire destroying your home:

Strategy:

Why this strategy:

## Part 3: Understanding Insurance Concepts

### Scenario 3: Insurance Terms in Action

Jordan has auto insurance with the following terms: \$500 deductible, \$100,000 liability coverage, \$150 monthly premium. She gets in an accident causing \$8,000 damage to her car and \$15,000 in medical bills for the other driver.

**a) How much does Jordan pay out-of-pocket for her car damage?**

Show your calculation...

**b) How much does her insurance pay for her car damage?**

Show your calculation...

**c) How much does her liability coverage pay for the other driver's medical bills?**

Your answer...

**d) If Jordan wanted to lower her premium, what could she do? What's the trade-off?**

Your answer...

### Scenario 4: Comparing Insurance Options

Compare these two renter's insurance options:

Feature	Option A	Option B
Monthly Premium	\$15	\$25
Deductible	\$1,000	\$250

Coverage Limit	\$15,000	\$30,000
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a) If your belongings are worth \$20,000, which option provides adequate coverage?

Your answer and reasoning...

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b) If you have a \$3,000 theft claim, how much would you receive from each option?

Option A:

Option B:

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## Part 4: Risk Tolerance Assessment

### Exercise 2: Personal Risk Tolerance

Rate your risk tolerance in each area (1 = Very Low, 5 = Very High):

Area	Rating (1-5)	Example Decision
Physical activities		
Financial investments		
Career choices		
Social situations		

Do your risk tolerances differ across areas? Why might that be?

Your reflection...

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## Part 5: Scenario Analysis

### Scenario 5: Complete Risk Analysis

Alex is starting a small landscaping business using his own truck and equipment worth \$25,000. Analyze the risks and recommend management strategies:

**a) List three significant risks Alex faces:**

1.

2.

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**b) For each risk, recommend a management strategy:**

Risk 1 strategy:

Risk 2 strategy:

Risk 3 strategy:

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**c) What types of insurance should Alex consider?**

List insurance types and why...

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## Part 6: Reflection Questions

**1. Why is risk acceptance sometimes better than buying insurance?**

Your answer...

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**2. How does risk pooling make insurance affordable for individuals?**

Your answer...

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**3. Describe a situation where using multiple risk management strategies together would be best:**

Your example and explanation...

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