

Your answers are shown below:

1. An example of liability based on contracts is:

- A. Workers' compensation.
- B. Negligence.
- **C. Hold-harmless agreement.**
- D. Strict liability.

C is correct. (Obj 1 – Type A).

A hold-harmless agreement is a contractual provision that obligates one of the parties to assume the legal liability of another party.

A is incorrect. Workers' compensation is an example of liability based on statute.

B is incorrect. Negligence is an example of liability imposed by tort.

D is incorrect. Strict liability is an example of liability imposed by tort.

2. Which one of the following statements is correct regarding legal liability based on contracts?

- A. Liability for injury resulting from a seller's breach of warranty is not insurable.
- B. Liability based on contracts arises solely when a breach of contract occurs.
- **C. A hold-harmless agreement obligates one of the parties of a contract to assume the legal liability of another party.**
- D. If the warranty on a product has been breached, the seller can make a claim against the buyer.

C is correct. (Obj 1 – Type A).

A is incorrect. Liability for injury resulting from a seller's breach of warranty is commonly insurable. Other consequences of breach of contract are not insurable.

B is incorrect. Liability based on contracts can arise out of either a breach of contract or an agreement one party has made to assume the liability of another party.

D is incorrect. If the warranty on a product has been breached, the buyer can make a claim against the seller.

3. Which one of the following statements is correct regarding legal liability?

- A. Workers' compensation laws are an example of employer contractual liability.
- **B. Legal liability that is imposed by civil laws can be based on contracts and statutes.**
- C. Most of the claims covered by liability insurance are based on contract law.
- D. Under the common law system, the body of law is derived mostly from the U.S. Constitution.

B is correct. (Obj 1 – Type A).

A is incorrect. Workers' compensation laws are an example of strict liability.

C is incorrect. Most of the claims covered by liability insurance are based on tort law.

D is incorrect. Under the common law system, the body of law is derived mostly from court decisions.

4. Which one of the following statements is correct regarding legal liability?

- **A. A statute can impose legal liability against a person even if they did not act negligently.**
- B. An employer's liability for occupational injuries is based on contractual liability.
- C. If a warranty is breached, a seller can make a claim against a buyer.
- D. Liability insurance responds to liability imposed by civil and criminal law.

A is correct. (Obj 1 – Type A).

B is incorrect. An employer's liability for occupational injuries is based on statutory liability.

C is incorrect. If a warranty is breached, a buyer can make a claim against a seller.

D is incorrect. Liability insurance responds to liability imposed by civil law. Insurance for criminal liability is prohibited.

5. Which one of the following statements is correct regarding legal liability?

- A. The majority of contract breaches are insurable.
- **B. Liability for negligence is an example of liability based on torts.**
- C. A requirement of an intentional tort is that it must be committed with malicious intent.
- D. An employer's liability for occupational injuries is based on contract liability.

B is correct. (Obj 1 – Type A).

A is incorrect. Breach of a seller's warranty is generally insurable, but other contract breaches are generally not insurable.

C is incorrect. An intentional tort does not necessarily have to be committed with hostile or malicious intent.

D is incorrect. An employer's liability for occupational injuries and illnesses is based on statutory liability.

6. A court rules that a zoo is legally liable for injuries resulting from a flock of eagles escaping their cage and attacking visitors, although the zoo was not negligent and the injuries were accidental. This type of liability is known as:

- **A. Strict liability.**
- B. Hold-harmless agreement.
- C. Statutory liability.
- D. Premises liability.

A is correct. (Obj 1 – Type B).

Strict liability is liability imposed by a court or statutes in the absence of fault when harm results from activities or conditions that are extremely dangerous, unnatural, ultrahazardous, extraordinary, abnormal, or inappropriate. Wild animals are considered abnormally dangerous instrumentalities.

7. A mayoral candidate that loses an election publishes an op-ed in his newspaper that falsely accuses the new mayor of evading her taxes. A court could decide the newspaper owner is liable for the damage to the mayor's reputation based on which one of the following?

- A. Breach of contract.
- B. Local ordinance.
- C. Absolute liability.
- **D. Intentional tort.**

D is correct. (Obj 1 – Type B).

An intentional tort is a tort committed by a person who foresees (or should be able to foresee) that his or her act will harm another person.

8. Which one of the following statements is correct regarding premises and operations liability?

- A. Premises and operations liability includes liability for employee injury or illness.
- **B. All jurisdictions use common law rules to determine an insured's duty to others under premises and operations liability.**
- C. Premises and operations liability includes property damage claims arising out of the use of mobile equipment.
- D. An organization's premises and operations liability is usually based on strict liability.

C is correct. (Obj 2 – Type A).

A is incorrect. Liability for employee injury or illness is regarded as a distinct liability loss exposure.

B is incorrect. Many jurisdictions have abandoned the common law rules in favor of a reasonable standard of care.

D is incorrect. An organization's premises and operations liability is usually based on negligence.

9. Which one of the following statements is correct regarding commercial liability loss exposures?

- A. Under the contractor's hold-harmless doctrine, a contractor cannot be held liable for negligence once the property owner has accepted the work.
- B. In terms of premises and operations liability loss exposures, many legal jurisdictions have abandoned common law rules in favor of strict liability.
- C. The premises and operations liability loss exposure includes bodily injury or property damage claims arising out of the use of automobiles.
- **D. In negligence claims for products liability, the plaintiff must prove the product was defective when it left the manufacturer's or supplier's control.**

D is correct. (Obj 2 – Type A).

A is incorrect. Under the common law accepted work doctrine, a contractor cannot be held liable for negligence once the property owner has accepted the work.

B is incorrect. In terms of premises and operations liability loss exposures, many legal jurisdictions have abandoned common law rules in favor of a reasonable care standard.

C is incorrect. The premises and operations liability loss exposure includes bodily injury or property damage claims arising out of the use of mobile equipment, but not the use of airplanes, automobiles, or watercraft.

10. Since the 1960s, many products liability lawsuits have been based on strict liability in tort. Under this liability, the plaintiff must prove:

- **A. The product was defective when it left the manufacturer's custody.**
- B. The manufacturer's negligence made the product defective.
- C. The seller knew the product was defective at the time of sale.
- D. The defective product could potentially lead to injuries.

A is correct. (Obj 2 – Type A).

B is incorrect. Strict liability is applied regardless of negligence.

C is incorrect. Strict liability is applied regardless of negligence.

D is incorrect. The plaintiff must prove the defective product was the proximate cause of the plaintiff's injury.

11. Some state no-fault laws restrict the right to sue for torts in motor vehicle cases and require all auto registrants to purchase specified personal injury protection (PIP) benefits. These are referred to as:

- A. Add-on no-fault laws.
- **B. Modified no-fault laws.**
- C. Strict no-fault laws.
- D. Verbal thresholds.

B is correct. (Obj 2 – Type A).

A is incorrect. Add-on no-fault laws preserve the tort system but require insurers to offer PIP insurance that provides specified first-party benefits.

C is incorrect. There are no laws classified as “strict” no-fault laws.

D is incorrect. A “verbal threshold” is a characteristic of some modified no-fault plans that defines the seriousness of the injuries beyond which the right to sue is allowed.

12. A construction company accidentally damages the building of a neighboring business with its bulldozer. This liability loss exposure relates to:

- A. Automobile liability.
- B. Completed operations liability.
- C. Employers liability.
- **D. Premises and operations liability.**

D is correct. (Obj 2 – Type B).

The premises and operations liability loss exposure includes property damage claims arising out of the use of mobile equipment, such as bulldozers, cranes, and loaders.

13. Irene was visiting a local artist's studio to pick out some art for her office. While she was perusing the art, a sculpture of hubcaps fell over and injured her arm. From the commercial liability standpoint of the artist, this is an example of:

- A. Completed operations liability.
- B. Products liability.
- **C. Premises and operations liability.**
- D. Professional liability.

C is correct. (Obj 2 – Type B).

The premises and operations liability exposure includes bodily injury caused by accident that occurs on an organization's premises.

14. Vanessa had her motorcycle serviced at a repair shop, but the technician failed to reattach the back tire properly. On her way home, the tire came off the motorcycle and

Vanessa was thrown from the bike. From the standpoint of a commercial liability loss for the repair shop, this is an example of:

- **A. Completed operations liability.**
- B. Products liability.
- C. Premises and operations liability.
- D. Professional liability.

A is correct. (Obj 2 – Type B).

Completed operations liability is the legal responsibility of a contractor, repairer, or other entity for bodily injury or property damage arising out of completed work.

15. Steve, a supervisor at ABC Company, was hosting a Christmas party for ABC Company employees at his home. During the party, the ceiling of Steve's recently-built media room collapsed, injuring several employees. The liability arising out of this scenario is best categorized as:

- **A. Completed operations liability for the contractor who built the media room.**
- B. Employers liability for ABC Company.
- C. Products liability for ABC Company.
- D. Strict liability for Steve.

A is correct. (Obj 2 – Type B).

The liability arising out of this scenario is best categorized as completed operations liability for the contractor.

16. A plumbing contractor was hired to install a whirlpool bathtub in the Harder's home. The contractor was negligent in the bathtub's installation, and an electrical short ended up causing a fire in the bathroom. Which one of the following loss exposures best categorizes the electrical contractor's legal liability exposure for the fire damages?

- A. Products liability.
- B. Premises and operations liability.
- C. Employer's liability.
- **D. Completed operations liability.**

D is correct. (Obj 2 – Type B).

This is an example of completed operations liability because the contractor did the work himself.

17. Which one of the following statements is correct regarding commercial liability risk control?

- A. Including rank-and-file employees in the development of a risk control program should be avoided as it can lead to inefficiencies.
- B. Claims management is an integral part of pre-accident risk control.
- **C. Cost effectiveness should be considered when developing liability loss control measures.**
- D. Separation is one of the most common risk control techniques practiced for liability exposures.

C is correct. (Obj 3 – Type A).

A is incorrect. Because human behavior is responsible for the vast majority of accidents, it is vital that employees be given a sense of ownership in the risk control program.

B is incorrect. Claims management is the technique of mitigating the effects of losses after they occur.

D is incorrect. The risk control technique of separation is theoretically possible, but rarely practiced for liability exposures.

18. Which one of the following is best categorized as a loss reduction activity?

- **A. Installing sprinkler system in a hotel.**
- B. Installing back-up alarms on mail trucks.
- C. Outsourcing dangerous chemical production to another company.
- D. Signing a hold-harmless agreement.

A is correct. (Obj 3 – Type A).

A loss reduction technique limits the damage resulting from an accident. A sprinkler system reduces the damage from fire.

B is incorrect. Back-up alarms are classified as a loss prevention technique.

C is incorrect. Outsourcing of dangerous chemical production to another company is an avoidance technique.

D is incorrect. A hold-harmless agreement is a noninsurance risk transfer technique.

19. Which one of the following risk control techniques has a primary objective of reducing loss frequency?

- A. Loss reduction.
- **B. Loss prevention.**
- C. Duplication.
- D. Separation.

B is correct. (Obj 3 – Type A).

A is incorrect. Loss reduction has a primary objective of reducing loss severity.

C is incorrect. Duplication has a primary objective of reducing loss severity.

D is incorrect. Separation has a primary objective of reducing loss severity.

20. Which one of the following statements is correct regarding risk control techniques?

- A. Safety seminars represent the risk control technique of loss reduction.
- B. Duplication reduces loss severity and makes losses more predictable, without increasing loss frequency.
- **C. The intent of separation is to reduce loss frequency.**
- D. The discontinuance of a product due to potential liability exposures is an example of loss reduction.

B is correct. (Obj 3 – Type A).

A is incorrect. Safety seminars represent the risk control technique of loss prevention.

C is incorrect. The intent of separation is to decrease loss severity at a single location.

Separation may actually increase loss frequency when multiple locations are created.

D is incorrect. The discontinuance of a product due to potential liability exposures is an example of avoidance.

21. Which one of the following is a loss prevention technique?

- A. Smoke detectors in a doctor's office.
- B. Portable showers in manufacturing areas.
- C. Seatbelts in delivery vehicles.
- **D. Safety glasses worn by employees.**

D is correct. (Obj 3 – Type A).

The safety glasses can prevent eye injuries.

A is incorrect. Smoke detectors are an example of a loss reduction technique.

B is incorrect. Portable showers are an example of a loss reduction technique.

C is incorrect. Seatbelts are an example of a loss reduction technique.

22. The Beautiful Bounties Plant Nursery installed rubber mats in their greenhouse to minimize the risk that customers will slip on the wet concrete floors and injure themselves. This is an example of:

- A. Loss reduction.
- **B. Loss prevention.**
- C. Avoidance.
- D. Noninsurance risk transfer.

B is correct. (Obj 3 – Type B).

The rubber mats reduce the frequency of a loss. Therefore, this is an example of loss prevention.

23. A small business owner signs a lease for office space that contains a hold harmless agreement. The hold harmless agreement states that the business owner will hold the building owner harmless from all loss, damage, liability, or expense claimed by the acts or neglect of the business owner or their customers. This is an example of:

- A. Loss reduction.
- B. Loss prevention.
- C. Avoidance.
- **D. Noninsurance risk transfer.**

D is correct. (Obj 3 – Type B).

A hold harmless agreement is an example of noninsurance risk transfer.

24. ABC Manufacturing has one plant with 200 employees. The workers' compensation history indicates a large number of back injuries suffered by employees. ABC Manufacturing hired a back injury consultant to conduct several seminars for employees. The consultant estimates that these seminars will reduce the frequency of back injuries by 25%. The consultant suggested that ABC Manufacturing purchase back braces for its employees. Which one of the following statements is correct regarding these risk control techniques?

- A. The educational seminars represent loss reduction, and the purchase of the back braces represents loss prevention.
- B. The educational seminars represent diversification, and the purchase of the back braces represents separation.
- **C. The educational seminars represent loss prevention, and the purchase of the back braces represents loss reduction.**
- D. The educational seminars represent avoidance, and the purchase of the back braces represents duplication.

C is correct. (Obj 3 – Type B).

Educational/safety seminars represent loss prevention measures. Loss prevention is a risk control technique that reduces the frequency of a loss.

25. A movie theater chain is expanding their territory and is looking to build new theaters in an area known for experiencing earthquakes. The company's management requires that all theaters built in the seismically active region be built with all the most up to date earthquake building codes. This is an example of:

- **A. Loss reduction.**
- B. Loss prevention.
- C. Avoidance.
- D. Noninsurance risk transfer.

A is correct. (Obj 3 – Type B).

Building to the most up-to-date earthquake building codes is a technique that will reduce the severity of a particular loss.

26. Which one of the following statements is correct regarding controlling liability losses?

- A. Off-premises and on-premises liability hazards represent similar loss exposures for an organization.
- B. Product liability loss exposures are limited to the manufacturer of the product.
- C. Many organizations dedicate more of their risk control resources to motor vehicle liability loss exposures than to any other category.
- **D. Workers' compensation loss exposures represent the highest-cost liability for many companies.**

D is correct. (Obj 4 – Type A).

A is incorrect. Off-premises operations present the inherent challenge of liability hazards that are more difficult to control than those that arise on an organization's own premises.

B is incorrect. Virtually any organization that manufactures or sells products or provides services has a products liability loss exposure.

C is incorrect. Many organizations dedicate more of their risk control resources to workers' compensation loss exposures than to any other category.

27. Laws that develop out of court decisions in particular cases and establish precedents for future cases are known as:

- **A. Common law.**
- B. Tort law.
- C. Statutory law.
- D. Judicial law.

A is correct. (Obj 4 – Type A).

B is incorrect. Tort law is the branch of civil law that deals with civil wrongs other than breaches of contract.

C is incorrect. Statutory law is the formal laws, or statutes, enacted by federal, state, or local legislative bodies.

D is incorrect. There is no such term as judicial law.

28. The preservation of sensitive customer information, the installation of a video surveillance system, and the inspection of sidewalks are all examples of:

- A. Completed operations risk control.
- **B. Premises liability risk control.**
- C. Workers' compensation risk control.
- D. Products liability risk control.

B is correct. (Obj 4 – Type A).

Premises liability risk control includes policies that protect customers (such as the preservation of sensitive customer information), security systems (such as video surveillance), and regular inspections (such as of walkways, stairs, and elevators).

29. Which one of the following statements is correct regarding workers' compensation and employer's liability loss exposures?

- A. The workers' compensation system is based on tort law.
- B. Post-accident claim management should not be a focus of workers' compensation liability.
- **C. Supervisors should contact an employee who is unable to work in an effort to demonstrate sincere compassion and provide encouragement.**
- D. Due to the doctrine of exclusive remedy, workers' compensation liability is excluded from the possibility of litigation.

C is correct. (Obj 4 – Type A).

A is incorrect. Workers' compensation is based on statutory law.

B is incorrect. Post-accident claim management is important following workers' compensation injuries to reduce the likelihood of litigation.

D is incorrect. In most workers' compensation cases, the employee has no right to sue the employer, but there are exceptions to that rule.

30. Yellow Checker taxi service is a new company and wants to be proactive in managing its motor vehicle liability through stringent loss control techniques. Which one of the following situations would be most useful in preventing auto-related liability losses?

- **A. Purchasing only vehicles with side-curtain airbags.**
- B. Implementing consistent disciplinary procedures for unsafe driving practices.
- C. Using outside contractors instead of Yellow Checker employees to drive the taxis.
- D. Enforcing a safe-driver policy that is available to staff upon request.

B is correct. (Obj 4 – Type B).

A is incorrect. Airbags are an example of a loss-reduction technique but do not prevent losses.

C is incorrect. Using outside contractors to drive the taxis will not prevent auto-related liability losses.

D is incorrect. A better loss-prevention technique is a safe-driver policy that is communicated to all staff.