

Part I: Risk in Our Society and Its Treatment

1. Assume that the chance of loss is 3 percent for two different fleets of trucks. Explain how it is possible that objective risk for both fleets can be different even though the chance of loss is identical.
2. Several types of risk are present in the American economy. For each of the following, identify the type of risk that is present. Explain your answer.
 - a. The Department of Homeland Security alerts the nation of a possible attack by terrorists.
 - b. A house may be severely damaged in a fire.
 - c. A family head may be totally disabled in a plant explosion.
 - d. An investor purchases 100 shares of Microsoft stock.
 - e. A river that periodically overflows may cause substantial property damage to thousands of homes in the floodplain.
 - f. Home buyers may be faced with higher mortgage payments if the Federal Reserve raises interest rates at its next meeting.
 - g. A worker on vacation plays the slot machines in a casino.
3. There are several techniques available for managing risk. For each of the following risks, identify an appropriate technique, or combination of techniques, that would be appropriate for dealing with the risk.
 - a. A family head may die prematurely because of a heart attack.
 - b. An individual's home may be totally destroyed in a hurricane.
 - c. A new car may be severely damaged in an auto accident.
 - d. A negligent motorist may be ordered to pay a substantial liability judgment to someone who is injured in an auto accident.
 - e. A surgeon may be sued for medical malpractice.
4. Andrew owns a gun shop in a high crime area. The store does not have a camera surveillance system. The high cost of burglary and theft insurance has substantially reduced his profits. A risk management consultant points out that several methods other than insurance can be used to handle the burglary and theft exposure. Identify and explain two noninsurance methods that could be used to deal with the burglary and theft exposure.
5. Risk managers use a number of methods for managing risk. For each of the following, what method for handling risk is used? Explain your answer.
 - a. The decision not to carry earthquake insurance on a firm's main manufacturing plant
 - b. The installation of an automatic sprinkler system in a hotel
 - c. The decision not to produce a product that might result in a product liability lawsuit
 - d. Requiring retailers who sell the firm's product to sign an agreement releasing the firm from liability if the product injures someone

Part II: Insurance and Risk

1. Compare the risks of (i) fire with (ii) war in terms of how well they meet the requirements of an ideally insurable risk.
2. a. Private insurers provide social and economic benefits to society. Explain the following benefits of insurance to society.
 - (1) Indemnification for loss
 - (2) Enhancement of credit
 - (3) Source of funds for capital investment and accumulationb. Explain the major costs of insurance to society.
3. Buildings in flood zones are difficult to insure by private insurers because the ideal requirements of an insurable risk are difficult to meet.
 - a. Identify the ideal requirements of an insurable risk.
 - b. Which of the requirements of an insurable risk are not met by the flood peril?
4. Private insurance provides numerous coverages that can be used to meet specific loss situations. For each of the following situations, identify a private insurance coverage that would provide the desired protection.
 - a. Emily, age 28, is a single parent with two dependent children. She wants to make certain that funds are available for her children's education if she dies before her youngest child finishes college.
 - b. Danielle, age 16, recently obtained her driver's license. Her parents want to make certain they are protected if Danielle negligently injures another motorist while driving a family car.
 - c. Jacob, age 30, is married with two dependents. He wants his income to continue if he becomes totally disabled and unable to work.
 - d. Tyler, age 35, recently purchased a house for \$200,000 that is located in an area where tornadoes frequently occur. He wants to make certain that funds are available if the house is damaged or destroyed by a tornado.
 - e. Nathan, age 40, owns an upscale furniture store. Nathan wants to be protected if a customer is injured while shopping in the store and sues him for the bodily injury.