

Law of Agency Cumulative Practice Test (Sample)

Study Guide



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SAMPLE

Questions

- 1. What judicial standard is used to determine liability based on whether a reasonable person would have known about a defect?**
 - A. Objective standard**
 - B. Reasonable person standard**
 - C. Strict liability standard**
 - D. Contributory negligence standard**
- 2. What is the title of a broker or sales agent licensed by TREC?**
 - A. Real estate agent**
 - B. License holder**
 - C. Broker-in-charge**
 - D. Sales representative**
- 3. What is a license holder called who represents a principal through cooperation with the principal's broker but is not associated with that broker?**
 - A. Independent agent**
 - B. Subagent**
 - C. Associate broker**
 - D. Restricted agent**
- 4. What is the act of explicitly informing all parties about whom an agent is representing?**
 - A. Disclosure of representation**
 - B. Communication of responsibilities**
 - C. Agency disclosure**
 - D. Information statement**
- 5. What is required by law to notify buyers and sellers of an intermediary relationship?**
 - A. Agency Disclosure Form**
 - B. Intermediary Relationship Notice**
 - C. Purchase Agreement**
 - D. Transaction Agreement**

- 6. Which term refers to the legal accountability that arises when ostensible agency is present?**
- A. Actual authority**
 - B. Agency by estoppel**
 - C. Agency by necessity**
 - D. Agency by appointment**
- 7. What is another term for "equitable interest" in a property transaction?**
- A. Owner's title**
 - B. Equitable title**
 - C. Transfer title**
 - D. Legal title**
- 8. In what scenario does an in-house sale occur?**
- A. When multiple brokerages handle one transaction**
 - B. When one brokerage represents both buyers and sellers**
 - C. When no broker is involved in a transaction**
 - D. When the sale is made online**
- 9. What document outlines the duties in a broker-buyer agency relationship?**
- A. Agency disclosure**
 - B. Listing agreement**
 - C. Buyer representation agreement**
 - D. Sales contract**
- 10. What is the primary purpose of mediation in real estate transactions?**
- A. To impose legal decisions**
 - B. To settle disputes**
 - C. To facilitate communication**
 - D. To finalize contracts**

Answers

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1. B
2. B
3. B
4. A
5. B
6. B
7. B
8. B
9. C
10. C

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Explanations

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1. What judicial standard is used to determine liability based on whether a reasonable person would have known about a defect?

- A. Objective standard**
- B. Reasonable person standard**
- C. Strict liability standard**
- D. Contributory negligence standard**

The reasonable person standard is employed to evaluate liability in legal situations by assessing how a typical, rational person would act under similar circumstances. This is crucial when determining whether a defect was noticeable; if a reasonable person in the same situation would have recognized the defect, liability may be assigned based on that judgment. This standard emphasizes objective analysis rather than the subjective experience or knowledge of the defendant. It promotes a fair assessment by providing a common baseline for evaluating conduct and decision-making processes. In contexts like product liability or premises liability, this standard helps answer whether a defect was so apparent that a reasonable individual should have identified it, thereby influencing legal accountability. In contrast, the objective standard focuses on observable behavior without considering individual nuances, the strict liability standard does not depend on the reasonableness of actions but instead holds parties liable regardless of fault, and contributory negligence examines the injured party's role in contributing to their own harm. Understanding these distinctions clarifies why the reasonable person standard is the appropriate choice in assessing liability involving knowledge of defects.

2. What is the title of a broker or sales agent licensed by TREC?

- A. Real estate agent**
- B. License holder**
- C. Broker-in-charge**
- D. Sales representative**

The title of a broker or sales agent licensed by the Texas Real Estate Commission (TREC) is referred to as a "license holder." This terminology is specifically used within the regulatory framework to encompass all individuals who hold a license to engage in real estate transactions, including both brokers and sales agents. Using the term "license holder" is significant because it captures the essence of legal authorization granted by TREC, signifying that the individual has met the necessary educational requirements, examinations, and other regulatory demands to operate legally within the real estate industry. This broader classification helps to encompass the various roles and responsibilities that these licensed individuals undertake, rather than limiting it to just one specific category like "real estate agent" or "broker." Understanding the correct terminology in this context is crucial for recognizing the legal standing and responsibilities associated with real estate professionals in Texas, as it sets a foundation for the expectations and limitations defined in real estate laws and regulations.

3. What is a license holder called who represents a principal through cooperation with the principal's broker but is not associated with that broker?

A. Independent agent

B. Subagent

C. Associate broker

D. Restricted agent

A license holder who represents a principal through cooperation with the principal's broker but is not directly associated with that broker is referred to as a subagent. This arrangement typically occurs when the subagent acts on behalf of the principal and is empowered to facilitate the transaction while still being under the broader umbrella of the principal's broker. The relationship is characterized by the subagent having a duty to act in the best interests of the principal, similar to the duties owed by the broker, even though they operate independently and are not part of the broker's staff. In situations involving subagency, it is essential to understand that subagents owe fiduciary duties to the principal, including loyalty, disclosure, and good faith. This form of agency allows for more flexibility in how agents can serve clients, aligning their interests with those of the principal while still working through the primary broker's network. This distinct role differentiates subagents from other types of agents, such as independent agents or associate brokers, who may have different relationships and obligations within their respective transactions.

4. What is the act of explicitly informing all parties about whom an agent is representing?

A. Disclosure of representation

B. Communication of responsibilities

C. Agency disclosure

D. Information statement

The act of explicitly informing all parties about whom an agent is representing is referred to as the disclosure of representation. This is a critical component of the agency relationship, as it ensures transparency and allows all parties involved to understand the nature of their relationship. The agent has an obligation to disclose their representation to mitigate any potential conflicts of interest and to build trust within the transaction. This practice is essential because it provides clarity regarding the agent's loyalties and the expectations of both the principal and third parties. In real estate transactions, for instance, it helps buyers and sellers understand whether the agent is representing their interests or acting as a dual agent. Other concepts, such as communication of responsibilities, may refer to the duties the agent owes to their client but do not specifically address the requirement to inform others about whom the agent represents. Agency disclosure could be interpreted broadly but lacks the precision of the term "disclosure of representation" regarding informing all parties. Lastly, an information statement is a general phrasing that does not specifically capture the legal duty of representation disclosure. Hence, the disclosure of representation is the most appropriate term in this context.

5. What is required by law to notify buyers and sellers of an intermediary relationship?

A. Agency Disclosure Form

B. Intermediary Relationship Notice

C. Purchase Agreement

D. Transaction Agreement

The correct answer is the Intermediary Relationship Notice. This document is essential in real estate transactions where an agent is acting as an intermediary between the buyer and the seller. The law mandates that this notice be provided to inform both parties about the nature of the relationship being established. It clarifies the agent's role and responsibilities in the transaction, ensuring transparency and helping to avoid potential conflicts of interest. While the Agency Disclosure Form serves to disclose the potential agency relationships, it does not specifically address the intermediary situation, which requires a distinct notice to comply with legal obligations. A Purchase Agreement primarily focuses on the terms of the transaction itself, and a Transaction Agreement also does not fulfill the specific legal requirement to inform both parties about the intermediary relationship. Thus, the Intermediary Relationship Notice is the critical document required for legal compliance in this context.

6. Which term refers to the legal accountability that arises when ostensible agency is present?

A. Actual authority

B. Agency by estoppel

C. Agency by necessity

D. Agency by appointment

The term that refers to the legal accountability arising from ostensible agency is agency by estoppel. This concept occurs when a principal is held responsible for the actions of an agent, even when there is no actual authority given to that agent, because the principal's conduct led a third party to reasonably believe that the agent had authority to act on their behalf. In situations of ostensible agency, the principal may have behaved in a way that suggests to others that the agent has the authority to represent them. As a result, if a third party relies on this appearance of authority and enters into a transaction with the agent, the principal can be legally bound to honor that transaction. Agency by estoppel, therefore, prevents the principal from denying the agency relationship due to their own representations or lack of taking action to clarify the agent's actual authority. The other terms do not accurately describe the legal accountability arising specifically from ostensible agency. Actual authority refers to the explicit or implicit authority given to an agent. Agency by necessity involves situations where an agent must act in the principal's best interest due to unavoidable circumstances. Agency by appointment relates to the formal decision made by a principal to appoint an agent. None of these terms encompass the legal implications of ostensible agency in the way

7. What is another term for "equitable interest" in a property transaction?

- A. Owner's title**
- B. Equitable title**
- C. Transfer title**
- D. Legal title**

"Equitable interest" in a property transaction refers to the rights held by a person to benefit from a property, even if they do not hold legal title to it. This typically arises when an individual has a stake in a property due to agreements or other interests, such as in trusts or mortgages. The term "equitable title" specifically denotes this situation, indicating a person's beneficial interest in the property. While they may not have formal ownership (legal title), they still possess the rights and benefits associated with property ownership. This concept is fundamental in property law, as it emphasizes the distinction between who has legal possession of a property and who has the right to benefit from it. In contrast, the other terms do not accurately represent this nuanced ownership status. "Owner's title" typically pertains to those holding legal title, "transfer title" relates to the conveyance of legal ownership, and "legal title" refers to the formal grant of ownership recognized by law, which does not encompass the rights associated with equitable interests. Hence, "equitable title" is the most precise term for describing "equitable interest."

8. In what scenario does an in-house sale occur?

- A. When multiple brokerages handle one transaction**
- B. When one brokerage represents both buyers and sellers**
- C. When no broker is involved in a transaction**
- D. When the sale is made online**

An in-house sale occurs when one brokerage represents both buyers and sellers in a transaction. This situation allows the brokerage to maintain control over the entirety of the transaction process, providing a streamlined approach for managing the interests of both parties. The brokerage can coordinate all aspects of the sale, such as negotiations and contractual arrangements, while maintaining a fiduciary duty to each client. This arrangement can lead to more efficient communication and transaction management, although it also requires the brokerage to navigate any potential conflicts of interest carefully. The other scenarios do not accurately represent an in-house sale. For instance, multiple brokerages handling one transaction indicates a collaboration rather than a single representation, and no broker involvement in a transaction means that the traditional model of agency does not apply at all. An online sale, while it may be modern and technology-driven, does not inherently define the nature of brokerage representation in a transaction.

9. What document outlines the duties in a broker-buyer agency relationship?

- A. Agency disclosure**
- B. Listing agreement**
- C. Buyer representation agreement**
- D. Sales contract**

The document that outlines the duties in a broker-buyer agency relationship is the buyer representation agreement. This agreement specifically details the obligations and responsibilities of both the broker and the buyer, establishing the terms under which the broker will represent the buyer in their search for a property. In this context, the buyer representation agreement clarifies aspects such as the scope of the broker's authority, the services they will provide, and the duration of the relationship. It also typically includes provisions regarding compensation and may outline how the broker will act in the best interests of the buyer, which is central to the agency relationship. Other documents like agency disclosures and listing agreements serve different functions. The agency disclosure informs parties about the nature of the agency relationships in real estate transactions, while the listing agreement is focused on the relationship between a seller and a broker. A sales contract, on the other hand, is a document that outlines the terms of the sale when a buyer and seller have agreed on a property but does not pertain to the duties and responsibilities in an ongoing broker-buyer agency relationship.

10. What is the primary purpose of mediation in real estate transactions?

- A. To impose legal decisions**
- B. To settle disputes**
- C. To facilitate communication**
- D. To finalize contracts**

Mediation in real estate transactions is primarily aimed at facilitating communication between parties involved in a dispute or negotiation. The mediator acts as a neutral third party who guides the process, helping both sides express their needs and concerns. The goal is to reach a mutually agreeable resolution without escalating the matter into formal litigation or arbitration. While settling disputes could be seen as an objective of mediation, the emphasis is often on improving dialogue and understanding first. This approach helps identify underlying issues and fosters a collaborative environment, which can lead to more amicable solutions. Therefore, facilitating communication is a fundamental aspect of the mediation process and is essential in achieving effective resolutions in real estate interactions.