

Michigan License Law Practice Test Sample Study Guide



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for each question.**

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Questions

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- 1. What is the difference between “market value” and “assessed value” in real estate?**
 - A. Market value is subjective; assessed value is objective**
 - B. Market value is the price a property can sell for; assessed value is used for property taxes**
 - C. Market value includes future appraisals; assessed value is historical**
 - D. Market value is set by the seller; assessed value by the buyer**
- 2. If Seller Mitch wins a fraud case against Broker Adam, what can the Department do?**
 - A. File a lawsuit against Mitch**
 - B. Initiate its own investigation against Adam**
 - C. Dismiss the case**
 - D. Impose fines on Mitch**
- 3. Which of the following actions does NOT involve engaging in the real estate business?**
 - A. Renting out properties**
 - B. Acting as a property manager**
 - C. Building and selling homes**
 - D. Conducting market research for properties**
- 4. How does Michigan law approach negligent misrepresentation?**
 - A. A licensee is never held liable**
 - B. A licensee can be held liable if they provide false information without exercising due diligence**
 - C. A licensee is only liable if intentional fraud is proven**
 - D. It is not addressed by Michigan law**
- 5. What role does "consideration" play in a real estate contract?**
 - A. It refers to the time frame for closing**
 - B. It's the compensation exchanged between the parties**
 - C. It defines the property's location**
 - D. It determines the property's market listing**

- 6. Who is responsible for managing disclosures of agency relationships?**
- A. The buyer's agent only**
 - B. Both the seller and buyer's agents**
 - C. The state real estate commission**
 - D. The seller's agent only**
- 7. Which of the following is true regarding real estate commissions in Michigan?**
- A. They can be established arbitrarily by agents**
 - B. They are determined based on the type of property**
 - C. They are typically negotiated between parties**
 - D. They must always be decided before any sale occurs**
- 8. What document outlines the terms and conditions of a real estate sale in Michigan?**
- A. Sales Contract**
 - B. Real Estate Listing Agreement**
 - C. Purchase Agreement**
 - D. Buyer Representation Agreement**
- 9. Which statement is true regarding Peter's advertisement that only includes a street address?**
- A. The ad is acceptable as it indicates the location.**
 - B. The ad is legal if the street address is a well-known landmark.**
 - C. The ad is illegal if it does not include the business name of the brokerage.**
 - D. The ad must have both a street address and a photo of the property.**
- 10. What is a violation of Fair Housing according to Michigan law?**
- A. Refusing a sale based on earnest money**
 - B. Discrimination based on race**
 - C. Negotiating commission rates**
 - D. Discussing client details with others**

Answers

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

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Explanations

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1. What is the difference between “market value” and “assessed value” in real estate?
- A. Market value is subjective; assessed value is objective
 - B. Market value is the price a property can sell for; assessed value is used for property taxes**
 - C. Market value includes future appraisals; assessed value is historical
 - D. Market value is set by the seller; assessed value by the buyer

The distinction made in the correct choice highlights the fundamental purposes of both market value and assessed value in real estate. Market value refers to the estimated price a property would realistically sell for in the current market, taking into account various factors such as location, condition, and recent sales of comparable properties. This value can fluctuate based on demand in the market and is often influenced by buyer behavior. In contrast, assessed value is a valuation determined by a public authority, typically a local government, for the purposes of property taxation. It may not always reflect the current market trends but is established following a set formula or criteria that aims to standardize property tax assessments across the area. As such, assessed values often lag behind actual market values and can vary significantly based on when the last assessment was conducted. This understanding underscores the fact that while market value is dynamic and influenced by buyer-seller interactions, assessed value is more static and primarily concerned with generating revenue for local governments through property taxes.

2. If Seller Mitch wins a fraud case against Broker Adam, what can the Department do?
- A. File a lawsuit against Mitch
 - B. Initiate its own investigation against Adam**
 - C. Dismiss the case
 - D. Impose fines on Mitch

When Seller Mitch wins a fraud case against Broker Adam, the Department has the authority to initiate its own investigation against Adam. This is because the outcome of the court case may indicate that Broker Adam engaged in unethical or illegal behavior in his professional capacity. Regulatory bodies often take a proactive approach to ensure that licensed professionals comply with the law and maintain ethical standards. If the court has found that Adam committed fraud, it can trigger the Department's responsibility to investigate further to protect consumers and uphold the integrity of the real estate profession. This investigation could lead to various disciplinary actions, including possible sanctions against Adam's license, depending on the findings. The other options involve actions that would not align with the responsibilities and processes typically governed by the Department in such situations. For instance, filing a lawsuit against Mitch would be illogical since he won the case, and dismissing the case wouldn't be a relevant action as there would already be a ruling. Imposing fines on Mitch would also not be appropriate, as he is the victim in this situation, having successfully proven fraud against him.

3. Which of the following actions does NOT involve engaging in the real estate business?

- A. Renting out properties**
- B. Acting as a property manager**
- C. Building and selling homes**
- D. Conducting market research for properties**

The action that does not involve engaging in the real estate business is conducting market research for properties. This activity is typically related to analyzing data and trends in the real estate market to make informed decisions or assessments but does not involve directly buying, selling, renting, or managing real estate. In contrast, renting out properties, acting as a property manager, and building and selling homes are all activities that directly pertain to the core functions of the real estate business. Renting involves leasing properties to tenants, property management includes overseeing residential or commercial properties on behalf of owners, and building and selling homes involves a hands-on approach to the real estate market that includes development and transaction processes. Therefore, conducting market research is more of a strategic or analytical function that supports the real estate business rather than actively engaging in it.

4. How does Michigan law approach negligent misrepresentation?

- A. A licensee is never held liable**
- B. A licensee can be held liable if they provide false information without exercising due diligence**
- C. A licensee is only liable if intentional fraud is proven**
- D. It is not addressed by Michigan law**

Michigan law allows for a licensee to be held liable for negligent misrepresentation if they provide false information without exercising due diligence. This means that if a real estate professional offers information that is incorrect, and they fail to take reasonable steps to verify the accuracy of that information, they can be held legally responsible for any resulting harm or damages to another party. This principle is grounded in the idea that licensees are expected to use a reasonable standard of care when providing information to clients or the public. They are not immune from liability simply because they did not intend to defraud anyone. The law recognizes that relying on the accuracy of information is necessary in the field of real estate and, therefore, emphasizes the importance of diligence in ensuring that the information shared is reliable. By requiring licensees to exercise care and diligence, Michigan law aims to protect consumers and maintain the integrity of real estate transactions. This reflects a balance between the responsibilities of real estate professionals and the protection of those who rely on their expertise.

5. What role does "consideration" play in a real estate contract?

- A. It refers to the time frame for closing**
- B. It's the compensation exchanged between the parties**
- C. It defines the property's location**
- D. It determines the property's market listing**

In a real estate contract, "consideration" refers to the compensation exchanged between the parties involved in the agreement. It is a fundamental element of any enforceable contract, indicating what each party is willing to give and receive as part of the transaction. Typically, this consideration is often in the form of money, such as a purchase price, but it can also include other forms of value, such as services or goods. The presence of consideration signifies that both parties have made a commitment to the transaction, and this mutual exchange is critical for the contract's validity within the bounds of contract law. The other concepts in the multiple-choice question do not accurately define the role of consideration in a real estate context. For instance, the time frame for closing does not pertain to consideration but rather to the logistical aspects of executing the contract. Similarly, the location of the property is a descriptive aspect of the contract, and determining a property's market listing is related to pricing strategy and marketing rather than the fundamental legal concept of consideration.

6. Who is responsible for managing disclosures of agency relationships?

- A. The buyer's agent only**
- B. Both the seller and buyer's agents**
- C. The state real estate commission**
- D. The seller's agent only**

The responsibility for managing disclosures of agency relationships lies with both the seller and buyer's agents. This is crucial because both parties have distinct obligations to their clients regarding transparency and the nature of their agency relationship. In a real estate transaction, the seller's agent must clearly disclose their role in representing the seller's interests, including any fiduciary duties and the scope of the agency agreement. Similarly, the buyer's agent has the responsibility to clarify their role and allegiance to the buyer, ensuring that the buyer understands any limitations or duties involved in the representation. The joint responsibility arises from the need to ensure that both buyers and sellers are fully informed about who is representing them in the transaction. This is in accordance with state regulations, which often emphasize the importance of clear communication about agency relationships to promote ethical practices in real estate transactions. By requiring both agents to manage these disclosures, the law helps protect clients and facilitate a more transparent transaction process.

7. Which of the following is true regarding real estate commissions in Michigan?

- A. They can be established arbitrarily by agents**
- B. They are determined based on the type of property**
- C. They are typically negotiated between parties**
- D. They must always be decided before any sale occurs**

In Michigan, real estate commissions are typically negotiated between the parties involved in the transaction. This means that the commission structure is not fixed and can vary depending on several factors, such as the property type, local market conditions, the agreement between the agent and the client, and any additional services the agent may provide. The ability to negotiate commissions allows for flexibility, enabling both the buyer and the seller to arrive at an agreement that suits their specific circumstances. Agents must strive to provide value to their clients to justify their commission, which can often lead to competitive pricing in the market. This negotiation aspect distinguishes real estate commissions from other aspects of sales that might have mandated fees or pricing structures, reinforcing the essence of cooperative agreement in real estate transactions.

8. What document outlines the terms and conditions of a real estate sale in Michigan?

- A. Sales Contract**
- B. Real Estate Listing Agreement**
- C. Purchase Agreement**
- D. Buyer Representation Agreement**

The correct response is a Purchase Agreement, as this document specifically details the terms and conditions surrounding the sale of real estate in Michigan. A Purchase Agreement serves as a binding contract between the buyer and seller, outlining crucial elements such as the purchase price, property description, contingencies, closing date, and any other provisions relevant to the transaction. It is essential for ensuring that both parties have a clear understanding of their rights and obligations throughout the sale process. In contrast, a Sales Contract might seem related, but in the context of Michigan real estate transactions, the term most commonly used is Purchase Agreement. A Real Estate Listing Agreement pertains to the relationship between a seller and their listing agent, defining how the agent will market and sell the property, while a Buyer Representation Agreement outlines the relationship between a buyer and their agent, allowing the agent to represent the buyer's interests but not specifically detailing the terms of a sale. Both the Listing Agreement and Buyer Representation Agreement serve different purposes and do not directly cover the specifics of the sale itself.

9. Which statement is true regarding Peter's advertisement that only includes a street address?

- A. The ad is acceptable as it indicates the location.**
- B. The ad is legal if the street address is a well-known landmark.**
- C. The ad is illegal if it does not include the business name of the brokerage.**
- D. The ad must have both a street address and a photo of the property.**

Including only a street address in an advertisement typically lacks enough identifying information about the brokerage firm responsible for the listing. Michigan license law requires that advertisements for real estate services clearly identify the name of the brokerage to ensure consumers can discern who they are dealing with. This transparency protects consumers and promotes ethical advertising practices within the industry. If an advertisement fails to include the brokerage's name, it can lead to confusion regarding the legitimacy of the offer or the identity of the agent involved. Therefore, the absence of the brokerage's name renders the advertisement illegal under Michigan's licensing guidelines. This emphasizes the importance of proper and complete disclosure in real estate advertising.

10. What is a violation of Fair Housing according to Michigan law?

- A. Refusing a sale based on earnest money**
- B. Discrimination based on race**
- C. Negotiating commission rates**
- D. Discussing client details with others**

Discrimination based on race is a clear violation of Fair Housing laws, as both federal and state laws explicitly prohibit such practices. The Fair Housing Act and similar Michigan legislation aim to ensure that all individuals have equal access to housing opportunities, regardless of their race, color, religion, sex, national origin, familial status, or disability. Violations of these laws can result in severe penalties, including fines and legal action, as they undermine the fundamental principle of equality in housing. In contrast, the other options presented do not constitute Fair Housing violations. For instance, refusing a sale based on earnest money does not relate to discriminatory practices but rather concerns financial matters. Negotiating commission rates is also a standard business practice and is unrelated to the principles of fair housing. Lastly, discussing client details with others, while it may violate privacy or confidentiality agreements, does not pertain to discrimination based on protected classes as outlined by Fair Housing laws.