

Examination and Study Strategies

The PSI real estate examinations are achievement tests that candidates must pass before they can work as salespeople or brokers in their states. An achievement test measures an individual's proficiency in a given field. The ultimate objective of the license exam is to maintain the standards of the industry and to protect the public from persons not qualified to practice real estate sales and brokerage. The exam, therefore, tests

- the knowledge applicants have gathered through license-preparation courses and individual study and
- the ability of the applicants to use that knowledge in real estate applications.

PREPARING FOR THE EXAM

Mental and Physical Preparation

Multiple-choice tests demand a special type of mental preparation. While memorizing definitions, terms, and formulas, keep in mind that some questions also will require you to apply your knowledge to novel situations. Concentrate on real estate principles as you study, and try to *apply the principles and facts to real-life situations*.

An excellent method of preparing for an exam is to take similar tests prior to the actual exam. You can gain important percentage points simply by being an experienced test taker. The more similar to the actual exam the practice test is in content and format, the more you will benefit. This is the strategy behind the presentation of the diagnostic tests and the salesperson and broker exams in this manual. You will earn a better score if you are in top physical and mental shape the day of the test. It is a good idea to review your notes within the 48 hours before the exam. Get your normal amount of rest the night before the exam; it is *not* wise to stay up all night in a panic-stricken effort to cram. Eat normally, but do not have a heavy meal before going to the test.

Your *attitude* is at least as important as your metabolic state. You should be prepared, determined, and positive. A small amount of anxiety is natural—it can even help you do your best—but too much anxiety is a handicap.

Taking the Exam

Upon checking in for the examination, you will be required to show the necessary identification as well as verify and sign the candidate roster. You will also be required to sign the PSI Cheating Policy Statement and Candidate Consent Form. The proctor will then bring up the candidate information screen. You must review the information and ensure its accuracy. You must report any errors immediately. You will then be assigned a seat and the proctor will generate the exam. You will then be directed to enter the testing room and go to an assigned seat and begin the exam. When you actually begin the exam, read directions and questions carefully, not quickly. Be sure you understand each question completely before answering. Read each question twice to make sure of the question being asked.

A major cause of test errors is simply failure to think. Many tests measure judgment and reasoning, as well as factual knowledge. Always try to choose the *best* answer to a question; more than one alternative may be partially correct. Do not look for trick questions; choose the most logical answer to the premise of each question. Statistically, your first answer is likely to be the correct answer so do not change it unless you are absolutely sure you have made an incorrect answer.

Words used in the questions will have their standard meanings unless they are special real estate terms. It sometimes helps to rephrase a question if you are not sure of the answer. For example, you may suspect that **4** is true in the following item:

In holding a deposit delivered with an offer, which of the following would be the best place to put the money, provided you had no instructions to the contrary?

1. In your office safe
2. In a neutral depository in the buyer's name
3. In your checking account
4. In a neutral depository

By rephrasing mentally, “The best place to put a deposit delivered with an offer would be in a neutral depository,” you can clarify your thoughts about **4** being the correct answer. Be careful, though, not to change the meaning of the question when you rephrase it.

Pacing

Work through the exam at a comfortable rate. You are allowed ample time to finish the exam; however, you should work as rapidly as you can without sacrificing accuracy. Budget your time before you begin the exam. If you are not taking the test on a computer, keep a watch handy. Plan on having more than

half the questions answered before half the exam time has elapsed. NOTE: With the computer you do not have to waste time shading in your answers—and your results are immediate.

You may want to take a short break halfway through the exam. If you are ahead of schedule, you can afford to look up from your paper; take several deep, slow breaths; stretch your legs; relax in your seat; and rest for a minute or two. This breaks physical and mental tension and helps prevent mistakes.

As you work through the exam, answer the easy questions first—they are worth the same number of points as the hard ones, and they will build your confidence. Mark difficult items and time-consuming calculation problems and return to them later. You may find clues in later questions; or, if time runs out, you will have all the sure points. Do not give hurried answers just because you are intimidated by the number of questions. Most objective items are not very time consuming. Do not become discouraged if the exam seems difficult. No one is expected to get a perfect score.

DEVELOPING TEST QUESTIONS

The PSI exams are the result of collaboration by real estate experts and educators. How the tests for salespeople and brokers are organized and how many questions are associated with each topic of the exam were covered in Chapter 1, “Use of the Manual.” This section discusses the mechanics of test building.

Both the broker and the salesperson exams are completely multiple choice. Each test usually includes two types of questions. The first type tests your knowledge of general real estate, and the second tests your ability to apply this knowledge to specific real estate situations. The parts of a typical multiple-choice question are shown in the examples below:

When a claim is settled by a title insurance company, the company acquires all rights and claims of the insured against any person who is responsible for the loss. This is called

- | | |
|-----------------------|--------------------------|
| 1. escrow. | 3. certificate of title. |
| 2. abstract of title. | 4. subrogation. |

The Stem

The first step in developing a question is to write the *stem*, or *lead*. The stem provides all the information necessary to determine the correct response. It usually does not include irrelevant or extraneous information; the exceptions generally are items dealing with mathematics.

The stem can be an incomplete statement, as in the preceding example, or a question.

A lease provides a minimum rent of \$250 per month plus 5 percent of annual gross income over \$100,000. If the tenant did \$145,000 in business last year, what total rent was paid?

1. \$3,000
2. \$5,250
3. \$4,500
4. \$7,250

The answer is 2. Although the direct question lead tends to be somewhat less ambiguous than the incomplete statement, it usually is slightly longer and contains fewer clues to the correct response.

The Alternatives

The distractors then are written, with the correct keyed response embedded among the choices. In the PSI exam, the alternatives are presented in a multiple-choice format. The multiple-choice format, as illustrated in the preceding example, supplies four separate alternative answers. In this format, you are asked to consider four possible answers, alone and in combination. Study the following example:

Listing agreements include which of the following?

1. An open listing only
2. An exclusive-right-to-sell listing only
3. An open listing and an exclusive-right-to-sell listing
4. A contract for deed

The answer is 3. The purpose of distractors is to differentiate between well-prepared examinees and those who do not know the subject. Test developers often use popular misconceptions or even true statements that do not apply to the stem as distractors. Questions that do use true statements as distractors test not only your knowledge but also your judgment concerning the relevance of that knowledge. The difficulty of a question depends on the quality, or plausibility, of the distractors. In the worst case, where you have no idea which answer may be correct, the chance of answering it correctly is 25 percent because, theoretically, one out of four questions could be answered correctly just by guessing. Answering the question becomes much easier, and the odds of guessing correctly much higher, if one or two responses can be immediately eliminated.

SAMPLE QUESTIONS

The questions on the exam are not set up to trick you. You will, however, encounter several exam questions on the broker's exam that are more complex than the majority of the questions. Such questions are usually in a situational (story) format. You will need to read each question carefully to know exactly what is being asked before you begin to formulate your answer.

Several examples of questions that seem to be the most difficult for examinees are illustrated in this section. These include questions involving superfluous facts, reading comprehension, multistep math, value judgments, and best answer.

Superfluous Facts

Exam questions frequently contain superfluous facts that are not needed to answer the questions.

For example:

A family paid \$50,000 for their home five years ago, making a \$10,000 down payment. Their monthly payment, including interest at $7\frac{3}{4}$ percent, is \$286. The interest portion of their last payment was \$225.27. What was the approximate loan balance before their last payment?

- | | |
|----------------|----------------------|
| 1. \$29,480.64 | 3. \$44,283.87 |
| 2. \$34,880.52 | 4. None of the above |

The answer is 2. The only facts needed to answer this question are the amount of the last interest payment and the rate of interest. To solve, simply multiply the amount of the monthly interest, \$225.27, by 12. Then divide the result by the interest rate, 0.0775, to get the approximate loan balance.

Reading Comprehension

Another type of question you may find on the test requires that you read each word extremely carefully for comprehension.

For example:

Closing of a transaction for a residential property is set for April 19, 2005. The seller has a three-year insurance policy that expires June 25, 2006. The seller has prepaid a three-year premium of \$555. The buyer is to take over the policy as of the date of closing. The amount credited to the buyer at closing is

- | | |
|--------------|----------------------|
| 1. \$185.00. | 3. \$231.25. |
| 2. \$202.99. | 4. None of the above |

The answer is 4 because the prorated amount of the prepaid insurance would be *debited* to the buyer.

Multistep Math

A type of question that frequently appears on PSI exams involves mathematics problems that require several steps.

For example:

A woman bought a house at exactly the appraised value. She negotiated a loan through a savings-and-loan association at 75 percent of the appraised value. The interest rate was 9 percent. The first month's interest was \$405. What was the approximate selling price of the property?

- | | |
|-------------|----------------------|
| 1. \$54,000 | 3. \$72,000 |
| 2. \$60,000 | 4. None of the above |

The answer is **3**. To answer this question, first multiply \$405 by 12 to get the approximate annual interest (\$4,860). Then divide \$4,860 by the interest rate, 0.09, to get the amount of the loan (\$54,000). Finally, divide \$54,000 by 0.75 to find the appraised value (\$72,000), which is the same as the purchase price. Sometimes a candidate who understands the mathematical process can use the answer key and work backward.

$$\$72,000 \times 75\% (0.75) = \$54,000 \times 9\% (0.09) = \$4,860 \div 12 \text{ months} = \$405$$

Value Judgments

A few questions on the exam may require you to make value judgments.

For example:

A broker listed a small house for \$86,000, obtaining an executed sales contract on it within six weeks at \$85,000. The broker learned there was an existing \$75,000 first mortgage and a \$5,000 second mortgage on the property. The broker knew the real estate could be refinanced on a new \$70,000 first-mortgage loan. The holder of the second mortgage told the broker he was willing to discount his \$5,000 note, selling it for \$4,500. The buyer has \$20,000 cash and qualifies for a new \$70,000 first-mortgage loan. The broker should

1. say nothing to the seller about refinancing and allow the transaction to close.
2. tell the seller the second mortgage can be paid off at a \$500 discount.
3. tell the holder of the second mortgage the property is sold and, therefore, he or she should demand the full amount of \$5,000.
4. buy the second mortgage himself at the \$500 discount.

The answer, of course, is **2**. As an agent of the seller, the broker must act in the seller's best interest.

Best Answer

You will frequently be asked to choose the best answer from alternatives when the ideal answer is not present.

For example:

A broker listed a beachfront home at \$263,000. Three weeks later, the broker was fortunate to obtain a full-price offer on the beach house. Stopping by the house after the sales contract was executed and in force, the broker was appalled to see a large foundation crack. Two days later the broker noticed the crack had been carefully repaired. The broker knew the seller was unaware of the crack because she had extremely poor eyesight. The broker suspected that the crack had been fixed by the seller's son-in-law, a building contractor. The broker should

1. disclose the fact of the crack to the buyer.
2. immediately cancel the sales contract.
3. keep quiet about the crack because it has been repaired.
4. confront the son-in-law with his suspicions and threaten to sue.

The best alternative available here is **1**. It would be ideal to inform the seller of the crack, requesting permission to inform the buyer, but that alternative does not appear here. Note that this question also asks you to make a value judgment.

HOW TO ANALYZE A QUESTION

Apparent Content

In general, the PSI exams are designed to measure your real estate knowledge and skills. Multiple-choice questions can test much more than your recall of specific facts. The PSI exam will, in fact, test how well you understand a given concept; whether you can apply rules to real-life situations; and how well you can analyze, synthesize, and evaluate information, then arrive at a correct conclusion. If you can determine what ability the question is trying to measure, it will help you become a more effective test taker. The levels of skill the PSI exam seeks to measure are illustrated by the following examples:

Example 1

How many acres are there in a section?

- | | |
|-------|--------|
| 1. 16 | 3. 200 |
| 2. 36 | 4. 640 |

The answer is **4**. This is an example of *recall*, or recognition. The point of the question is to find out if you know this fact about sections—logic does not help much in determining the answer. The *factual question* is the easiest type to recognize.

Example 2

Brokers owe their primary fiduciary duty to which of the following?

1. The principal
2. The lender
3. The public
4. The real estate commission

The answer is **1**. This type of question seeks to measure your understanding of the concept of fiduciary duty—and who it involves. *Comprehension questions* such as this often require you to identify real estate principles, laws, or practices.

Example 3

An investor leases a 20-unit apartment building for a net monthly rental of \$5,000. If this figure represents a 7.5 percent return on investment, what is the original cost of the property?

1. \$80,000
2. \$200,000
3. \$800,000
4. None of the above

The answer is **3**. Multiply the monthly rental by 12 to get the rental income (\$60,000). Then divide \$60,000 by 7.5 percent (0.075) to get the investment cost (\$800,000). *Application questions* such as this are one level higher than comprehension questions. They ask you to use recall or understanding to solve a new real estate-related problem. Knowledge of real estate laws, regulations, principles, and practices must be applied to concrete situations encountered on the job. Math problems are usually of this type.

Example 4

Which of the following types of financing would be the most appropriate for a young veteran who has just used most of his savings to complete his degree in engineering and now would like to buy a house for his family?

1. A conventional mortgage
2. An installment contract
3. A VA mortgage
4. An FHA mortgage

The correct answer is **3**. At this point you are being tested not only on the concept of financing but also on your ability to weigh each of the options and come up with the best answer. *Analysis items* gauge your ability to identify parts of a whole, understand the relationships among the parts, or identify the way that these elements are organized. You may have to differentiate between reasons and conclusions or indicate the relative importance of causes or factors. This question involves more than recall, for all the options are true. You must take your thinking one step further.

Example 5

Which of the following types of listing agreements affords the broker the most protection?

1. An open listing
2. An exclusive-agency listing
3. A net listing
4. An exclusive-right-to-selling listing

The correct answer is **4**. *Evaluation questions* such as this one test your ability to determine the best solution or to judge value in some manner. Often you must use recall, comprehension, analysis, and synthesis to arrive at the answer.

Studies show that items testing the lower levels of cognition (recall or recognition) are easier than application, comprehension, and higher-level questions. However, items testing the higher cognitive functions often can be solved by using general intelligence rather than specific real estate knowledge. Your score can be improved simply by exercising logic. You can turn this to your advantage by reasoning through difficult problems using the following seven steps:

1. Read the items carefully to determine the general subject that the item is testing and exactly what is asked.
2. Reread the question for essential facts and qualifiers.

3. Eliminate answers that you know are incorrect.
4. Rephrase the problem (often helpful).
5. Determine what principles or formulas are necessary and how to solve the problem.
6. Apply relevant information to arrive at a solution.
7. Reread the question and check the answer.

Try this item for practice:

If an offer to purchase is received under certain terms and the seller makes a counteroffer, what is the prospective purchasers' legal position?

1. They are bound by the original offer.
2. They must accept the counteroffer.
3. They are relieved of the original offer.
4. They must split the difference with the seller.

The answer is **3**. How do you use the seven steps to arrive at that answer? In step 1, you determine that the subject is whether an offer is binding under certain circumstances. In step 2, you reread the question to determine that the prospective purchasers make an offer and the seller makes a counteroffer. In step 3, you eliminate any obviously incorrect answers—in this case, response **4**. Step 4 suggests rephrasing the problem: "If the buyers make an offer under certain terms and the seller makes a counteroffer, the buyers. . ." Step 5 is performed so automatically for this type of question that you may not be conscious that you are doing it. You need to know that an offer is not binding on the prospective purchasers once a counteroffer has been made. In step 6 you determine that alternative **3** is correct. Step 7 ensures that you have understood the question and have marked the right answer.

Although this logical process may seem long or complicated, your mind will accomplish it automatically within a few seconds once you train yourself to think or reason through questions.

EXAM STRATEGY

Many people study diligently and simply show up at the examination site without having given any thought to a strategy for taking the test. To maintain your confidence, poise, and positive mental attitude, you should start the examination with a game plan for taking the test.

We suggest that you develop your own strategy for completing the test. Following is an example of an exam strategy:

Unless testing is computer-generated, start with the state examination if possible. It is the shorter test, comprising 40 to 50 questions. Read each question once to determine the particular subject matter of the question. Read the question a second time, and concentrate on determining the correct response. If you are uncertain of the correct answer, eliminate obviously incorrect responses. If you

still are uncertain of the single best answer, ask the computer to record the number for future review of the choice selected and move on to the next question. Then continue to the national exam, again answering the questions you know and skipping the questions you are uncertain about. By doing this, you divide the test into two parts:

1. the part you know, which you answer quickly and efficiently and remove from further consideration, and
2. the part you do not know but have managed to isolate, to which you can devote the remainder of your test time.

If math is your strength, you should next complete the math. There will be approximately ten math questions on the exam. After completing the math (on a mental high), your strategy is to go back to the state portion, then the national portion, and make a second pass through the exam. Do this until both tests have been completed.

Multiple-choice items often test not only your knowledge of specific points but also your ability to relate other information to the point. Many important topics have more than one question allotted to them. The correct answer to one question often can be found in some portion of another, so jot down the numbers of the questions that you think contain clues. This will help you in rechecking answers or answering questions you skipped.

If math is not your strength, do not let yourself be intimidated by the calculation problems. A good approach to math questions is to estimate the answer before actually working the problem. Figure neatly and carefully—this reduces error; then compare your answer with your original estimate. If they are different, you may have misplaced a decimal or used the wrong equation. If you cannot tell from the problem what equation to use, make up a simple, similar problem and determine the equation from that. If you cannot solve a problem, or if you obtain an answer that is not one of the options, check to see if you used all the figures given in your calculations. If you cannot solve a math problem in the usual way, you sometimes can find the correct solution by working backward from the given answers.

Math problems often use varying units that must be converted. You may have to change income per month to income per year before applying a formula, or you may have to convert square feet to acres before proceeding with a calculation.

If you really have no idea how to solve a math problem and must guess blindly, eliminate the two most extreme numerical answers and mark one of the remaining choices. This tactic is not always correct, but the odds favor it.

After completing every question on the exam, proofread your answer sheet if you are taking the exam with an answer key. Make sure that your answers are next to the correct numbers, that you did not misread any of the questions, and that you marked the answer you intended for each item. By using extra time to correct any careless mistakes, you may boost your score significantly. *Do not change an answer unless you are sure the new one is correct. Studies show that*

an examinee's first response usually is correct and that changes will decrease the score.

By developing an exam strategy similar to this, you will be in command—not the exam.

Exam Strategy

- Remember that questions are industry-related; know the vocabulary.
- Read all questions and answers thoroughly before choosing the best answer.
- Eliminate answers that are incorrect.
- Do not go back and change answers; do not second-guess yourself.
- First, complete the questions you know the answers to, then return to the questions you are unsure of.
- Psychologically prepare yourself.

STUDY STRATEGY

The following gives you a strategy for studying and incorporating the diagnostic tests and outlines of concepts to understand in Chapters 3 through 13.

Chapters 3 through 13 correspond to testing areas on the PSI exam for salesperson: “Property Ownership,” “Land-Use Control and Regulations,” “Valuation and Market Analysis,” “Financing,” “Laws of Agency,” “Mandated Disclosures,” “Contracts,” “Transfer of Title,” “Practice of Real Estate,” “Real Estate Calculations,” and “Specialty Areas.” Chapter 14 covers “Brokerage Management.” Each chapter begins with an “Outline of Concepts to Understand” for the subject area. This is followed by the “Diagnostic Test,” its “Answer Key,” and a test score box. Take the Diagnostic Test and analyze your results before reviewing the content outline. If your progress score suggests that you need improvement, use the test results to establish your priority areas for study.

Keep in mind that the outline format of the concepts is designed primarily to organize your real estate knowledge concisely. If you are having difficulty with a particular topic, consult real estate practice and theory texts for a comprehensive explanation of the topic. *Modern Real Estate Practice* (published by Dearborn Real Estate Education) provides a solid core of information.

How to Use the Progress Score

After completing and correcting the diagnostic test, count the number of questions missed and enter that number in the box under “Your Score” after “Total Wrong.” Then subtract the number of incorrectly answered questions from the total points. Finally, analyze your results by finding where your score of correct answers falls in the “Range” column; the rate corresponding to your score describes your progress. Your score will fall under “Good,” “Fair,” or “Needs Improvement.”

Study in depth. It is important to realize that you cannot simply read the text in preparing to complete the exam successfully. You must arrive at a thorough understanding of the subject matter. This can be easily achieved by writing a sample test question to yourself about the paragraph you have just read. It is a good practice to outline the thoughts of the paragraph in your own words or develop relationships between items. In other words, create mental images that will help you recall difficult concepts. Acronyms are useful when memorizing a series of items. For example, the five duties that an agent owes to a principal are COALD: care, obedience, accounting, loyalty, and disclosure. During this stage, you should work alone.

Regularly review material studied. In many cases this can be accomplished by having a study partner assist you in reviewing your knowledge of vocabulary words, concepts, and relationships. This also can be achieved by taking regular exams on the subject matter. Following are some other tips:

- Make flash cards with terms on the front and definitions on the back.
- Tape-record terms: say the term, pause, then give the definition.
- Encourage group or one-on-one discussion.