

Insurance Markets: Course Outline

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Prof Ray Rees / Florian Englmaier / Pieter DeVos

Seminar für Versicherungswissenschaft
Economics Department
Ludwigstr. 28 III VG
80539 Munich

1. Introduction

History – characteristics of an insurance market – insurance markets in practice and in theory

2. The Demand for Insurance

The expected utility model – full coverage with a fair premium – partial coverage: main comparative statics results – deductible and coinsurance – insurance demand and background risk – State-contingent utility and "irreplaceable commodities"

3. The Supply of Insurance

risk-pooling and risk-spreading – the Arrow-Lind Theorem – the insurance firm

4. Equilibrium Insurance Contracts in a Competitive Market

simple case without transactions costs – transactions costs and the Raviv-model – efficiency properties of insurance market equilibrium

5. Regulation of Insurance Markets

Forms of insurance regulation and recent developments – theoretical models of insurance regulation

6. Adverse Selection

The Rothschild–Stiglitz-model – existence of an equilibrium – categorical and endogenous discrimination – application: genetic testing – multiperiod contracts.

7. Moral Hazard

contractual solution – loss prevention – loss reduction – insurance fraud – ex-post Moral Hazard

8. An Empirical Assessment of Information Problems

How do the theoretical models covered in lecture perform in empirical tests?

9. Informal Insurance Schemes

absence of insurance markets – static repeated games models – dynamic repeated games models – empirical assessment

10. Insurance and bounded rationality

Are the derived results robust when we take consumers' bounded rationality into account?

Reading:

- Dionne G. (ed) *Contributions to Insurance Economics* Kluwer 1992
- Dionne G and Harrington SE (eds) *Foundations of Insurance Economics* Kluwer 1992
- Dionne G. (ed) *Handbook of Insurance* Kluwer 2000
- Eeckhoudt E and Gollier C. *Risk: evaluation, management and sharing*. Harvester/Wheatsheaf 1995
- Gollier C. *The Economics of Risk and Time* MIT Press 2004
- Gravelle H.S.E. and Rees R. *Microeconomics*, Prentice Hall 2004
- Gravelle H.S.E. and Rees R. *Microeconomics*, Longman 1992
- Rees R, Schlesinger H and Wambach A, *The Economics of Insurance Markets*, Manuscript, 2003.
- Zweifel P and Eisen R. *Versicherungsökonomie*. Springer 2000
- On the course homepage we will publish a list of articles related to the topics covered in the course.