

Econ 155: Insurance Economics, Fall 2007

Thomas G. Koch, NH 2013

Class: MWF 12:00-12:50 pm

Office Hours: T 2-3:30 PM and W 1-2:30 PM

Research Hours: 8-11:30 AM

INTRODUCTION

There are many kinds of uncertainty in life—Will I get a raise, or will I get fired? Will I get sick and have to go to a doctor this year? Will I get in a car accident and have to fix my car? Insurance is a way that we cope with the uncertainties in life. Insurance can also lead to unintended consequences: Does medical insurance lead to overconsumption of medical goods and services? Does car insurance lead to riskier driving habits? Am I more likely to build a house in a flood plain if I know I can insure it against floods? This course first develops a basic toolkit for understanding these circumstances, choices and outcomes. It then takes this toolkit to look at specific insurance markets, such as medical insurance, life insurance and car insurance. A student who successfully completes this course will (a) be competent with the mathematical tools economists use to quantify risk, (b) use economic theory to quantify how much a household values insurance, given the risk it faces, and (c) explain the ways that insurance markets may succeed or fail at providing efficient outcomes.

CLASS POLICIES

The best way to contact the instructor is via the e-mail address listed above. If you have a question about course material, ask it at office hours.

Familiarity and comfort with calculus will make this course easier. You do not need to be good at calculus to succeed, but knowledge of the core concepts (derivatives, e.g.) will increase your likelihood of success.

Make-up exams will not be made available for students unable to make the listed date. If you are unable to take an exam on the date listed, contact the instructor as soon as the conflict is discovered.

Per the university's policy on academic conduct, all academic dishonesty, such as plagiarism and other forms of cheating, will be strictly policed and be met with disciplinary actions.

Students with disabilities will be accorded academic accommodations. If you have a disability, let the instructor know at the beginning of the semester. Accommodations will be made through the Disabled Students Program at UC-SB.

Quizzes will not be accepted after their due date without prior approval. All submitted work must be either typed or legible.

Attendance is not required. However, any student who hopes to do well in this class should expect to attend every class, alert and ready to learn.

COURSE READINGS

There is no textbook for this course. The readings for this course will be centered around a course reader available at the Alternative Copy Shop (6556 Pardall Road, Isla Vista, CA; (805) 968-1055). Its contents include:

1. Michael Lewis, "In Nature's Casino," *The New York Times Sunday Magazine*, August 26th, 2007.
2. Hal R. Varian, Chapter 12, "Uncertainty," pages 215-233, **Intermediate Microeconomics: A Modern Approach**, 7th Edition, W.W. Norton and Company, New York, 2006.
3. Theodore C. Bergstrom and Hal R. Varian, Chapter 12, "Uncertainty," pages 157-169, in **Workouts in Intermediate Economics**, 6th Edition, W.W. Norton and Company, New York, 2006
4. Spencer L. Kimball, "Insurance Market Organization: A Primer," Appendix of **Cases and materials on Insurance Law**, Little, Brown and Company, Boston, 1992, pp 105-115.
5. Robert E. Keeton and Alan I. Widiss, "Indemnity and Insurability: An Introduction," Chapter 3.1(a) through 3.2(f) of **Insurance Law: A Guide to Fundamental Principles, Legal Doctrines, and Commercial Practices: Student Edition**, West Publishing Company, St. Paul, Minnesota, 1988, pp 134-249.
6. Spencer L. Kimball, "Insurable Interest," Chapter 2.D, sections 1 and 2, of **Cases and materials on Insurance Law**, Little, Brown and Company, Boston, 1992, pp 105-115.
7. Spencer L. Kimball, "Interpretation of Insurance Contracts," Chapter 1, sections A and B, of **Cases and materials on Insurance Law**, Little, Brown and Company, Boston, 1992, pp 3-10.
8. Insurance Services Office, "Building and Personal Property Coverage Form" (1983), from the appendix of **Insurance Law: A Guide to Fundamental Principles, Legal Doctrines, and Commercial Practices: Student Edition**, West Publishing Company, St. Paul, Minnesota, 1988.
9. Mark V. Pauly, "The Economics of Moral Hazard: Comment," **American Economic Review**, **58**, 1968, pp 531-537.
10. George Akerlof, "The Market for Lemons: Quality Uncertainty and the Market Mechanism," **Quarterly Journal of Economics**, 1970, pp 488-500.
11. Anonymous, Partial schedule of life insurance charges.
12. Bruce D. Schobel and Robert J. Myers, "Japanese Mortality Rates: The Best in the World," **Contingencies**, 9 (1), January/February 1997, pp 32-5.
13. Charles L. Trowbridge, "Marriage, Sex and Mortality," **Contingencies**, 7 (6), November/December 1995, pp 24-31.
14. Mike Freeman, Jennifer Davies, and Roger M. Showley, "Rebuilding may be a long process for homeowners" **San Diego Union-Tribune**, November 2, 2003, p. 1.

15. Leslie Berestein, "Decision: Should we stay or should we go?" **San Diego Union-Tribune**, November 2, 2003, p. H1
16. Roger M. Showley, "Rebuild? A series of hurdles ahead," **San Diego Union-Tribune**, November 2, 2003, p. H8.
17. Leslie Berestein, "Some victims now find their homes are underinsured," **San Diego Union-Tribune**, November 4, 2003, p. 1
18. Roger M. Showley, "Homeowner discuss rebuilding," **San Diego Union-Tribune**, November 9, 2003.
19. Alex Roth, "For uninsured, where to turn?" **San Diego Union-Tribune**, November 9, 2003.
20. Mike Freeman, "Check insurance, past victims say," **San Diego Union-Tribune**, November 2, 2003, p. A22.
21. Roger M. Showley, "Oakland learned from losses in '91," **San Diego Union-Tribune**, November 16, 2003.
22. Mavis A. Walters, "A Sweeping Industry Initiative Upholds Building Codes to Hold Down Losses," **Contingencies**, 7(1), January February 1995, 41-43.
23. Charles Scawthorn, "Insurance Loss Estimation: Performance after the Northridge Earthquake," **Contingencies**, 7(5) September/October 1995, 26-31.
24. David Mayers and Clifford W. Smith, Jr., "On the Corporate Demand for Insurance," **Journal of Business**, 55, 1982.
25. Steven Sullivan, "Name Game: Trouble in the House of Lloyd's," **Contingencies**, 13(3), May/June, 2001, 31-35.

Added readings from the internet may also be included—links will be provided. Reading all materials for each class is strongly recommended.

COURSE OUTLINE

Date	Topic	Date	Topic
October 1	Probability	November 2	"
3	"	5	"
5	Expected Utility	7	"
8	Insurable Interest; Quiz 1	9	Property Insurance; Quiz 3
10	"	12	HOLIDAY—NO CLASS
12	"	14	"
15	Medical Ins.; Quiz 2	16	Corporate Insurance; Quiz 4
17	"	19	Exam Two
19	"	21	Car Insurance
22	"	23	HOLIDAY—NO CLASS
24	"	26	"
26	"	28	"
29	Exam One	30	Potpourri; Quiz 5
31	Life Insurance	December 3	"
		5	"
		7	Review for Exam; Writing due

ASSESSMENT

A student's numerical grade is determined by his or her performance on five take-home quizzes (5% each), two exams (15% each), one final exam (30% percent), and a short writing assignment (15%). The dates for the exams and quizzes are listed in the course outline above. The short writing assignment is to be under 1,000 words. It will be assigned before Thanksgiving break, and will be due the last day of class.