Quiz: Insurable Interest

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Answer each question listed below. Partial credit will be awarded, so *show all work*.

Question 1 Suppose that you own a home in Santa Barbara that can be sold for $1.75 million. (You would sell both the house and the land.) Alternatively, the home could be destroyed and a Target could be built on its land at a cost of $2 million. Since it would face very little competition in the market, a Target would be worth $2.75 million to whomever owned it.

- What is the value of the land? Explain your reasoning in one or two sentences.
- What is the conversion threshold of the property. Explain your reasoning in one or two sentences.
- What is your insurable interest on the property?
- Suppose that the chairman of Target tried to take out insurance on your home for $300,000. Why should the insurer reject the request? (Hint: assume that your home is easy to destroy while leaving no evidence, and that this hypothetical chairman of Target has no moral qualms about destroying the property of others.[1])
- Why does the law of insurable interests discriminate against the chairman of Target, while allowing you or your financial dependent to access such insurance?

[1] This should not be taken as a slur against the past or current leadership of Target. It is purely a hypothetical.