

# Economics of Insurance: A short course

**Lecturer: Richard Watt, University of Canterbury**

July 17<sup>th</sup>- 18<sup>th</sup> 2014 ■ 9.00 - 15.00 ■ Sala de Recepcions

Faculty of Economics and Business, Universitat de Barcelona

## Background

This is a course in microeconomic theory, as it relates to the study of problems involving insurance. In order to follow the course, students will need to have already studied a standard intermediate microeconomics course (especially, consumer theory), and they should also be comfortable working with mathematics at the undergraduate level. Without some basic mathematics, it becomes impossible to realistically talk about risky choices and insurance, at least with any degree of conviction. Above all, students should be comfortable with standard algebra and calculus. Students should be comfortable with the concept of constrained maximisation, and they should know how to study such problems using Lagrangeans.

## Course Outline

### 1. Introduction

- a) risk, expected utility, risk aversion, and the risk premium.
- b) Insurance contracts; coverage and premium.

### 2. The demand for insurance

- a) The demand for insurance under proportional premium and coverage.
- b) The demand for insurance under a deductible insurance contract.
- c) Stochastic dominance and Arrow's theorem on the optimality of the deductible

### 3. The supply of insurance

- a) Competitive vs monopoly supply.
- b) Fundamentals of premium calculation.



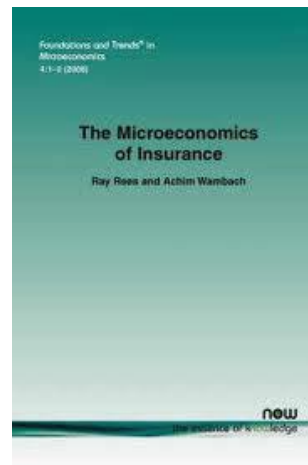
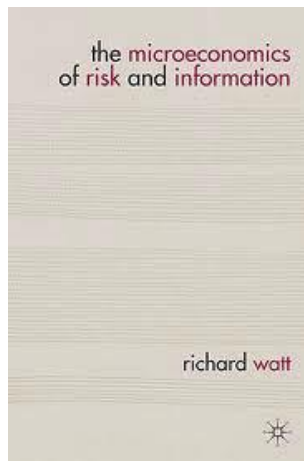
#### 4. Asymmetric information

- a) Adverse selection.
- b) Moral hazard.
- c) Insurance fraud.

#### Recommended Text

*The Microeconomics of Risk and Information*, by R. Watt. Published by Palgrave Macmillan (2011).

*The Microeconomics of Insurance*, by R. Rees and A. Wambach. Published by Now Publishers (2008).

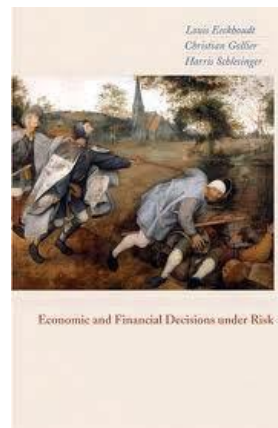
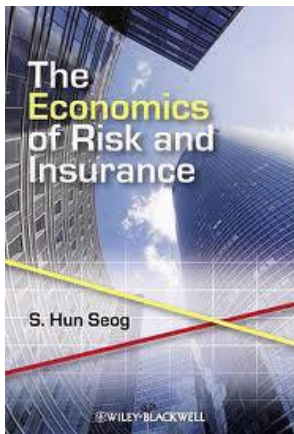


**You will also find the following texts very useful:**

*The Economics of Risk and Insurance*, by S. Hun Seog. Published by Wiley-Blackwell (2010)

*Insurance Economics*, by P. Zweifel and R. Eisen. Published by Springer (2012)

*Economic and Financial Decisions Under Risk*, by L. Eeckhoudt, C. Gollier and H. Schlessinger.  
Published by Harvard University Press (2010)



## Registration

Confirm your attendance [HERE](#) before July the 4<sup>th</sup>.