Microeconomic Theory of insurance

Pierre Picard (Ecole Polytechnique)

Course : 18 hours - TP : 0 hours

Objectives

This course presents the contribution of microeconomic theory (economics of uncertainty and contract theory) to the analysis of insurance markets. Particular emphasis is placed on the problems raised by the different types of information asymmetries between policyholders and insurers and the incentive mechanisms present in insurance contracts.

Outline

1. Reminders on decision models in uncertainty: utility expectation theory, risk aversion, prudence; Arrow-Pratt's theorem.
2. Risk increase, stochastic dominances.
3. Optimal risk sharing: mutualisation principle; non-diversifiable risks.
4. The demand for insurance
   a. The basic model
   b. The impact of an exogenous risk on the demand for insurance
   c. Prevention-insurance trade-offs
5. The optimal form of an insurance contract
6. Asymmetry of information on policyholder characteristics: anti-selection in insurance
7. Asymmetry of information on policyholder behaviour: moral hazard in insurance

Bibliography

- DIONNE G. eds (2000) *Handbook of Insurance*, Kluwer
- EECKHOUDT L., GOLLIER C., SCHLESINGER H. (2005) *Economic and Financial Decisions under Risk*, Princeton University Press
- GOLLIER C. (2004) *The economics of risk and time*, MIT Press