

Economics 174:
Economics of Insurance
Syllabus
Marshall Spring 2007

Calendar: Lectures: Monday, Wednesday, Friday, 3:00-3:50 PM, York 2722.

Exception: No class on Friday, April 20. Instead, I will hold a question and answer session during exam week.

Problem sets due each Wednesday at the start of class.

Midterm Examination: Wednesday, May 2, 3:00 – 3:50 PM York 2722.

Final Examination: Tuesday, June 12, 3:00 – 6:00 PM, probably in the same room.

Professor: John M. Marshall, Economics, Room 109. Office hours are Monday 11:00 – 12:00, Thursday 1:00 – 2:00 or by appointment (call 858 534 8904 or use email to marshall@econ.ucsb.edu) or drop in. (Note the E-mail is ucsB, not ucsD).

Teaching assistants office hours:

David Eil, SQH 238, Monday 1:00 – 4:00

Deniz Kebabci, Room TBA, Tuesday 10:00 – 12:00

Bryan Tomlin, Economics 125, Wednesday 10:30 – 12:00.

Web page: WebCT

Text: Readings available at Soft Reserves about April 6.

Grading: Problems and short papers (20 %), Midterm examination (25 %), Final (55 %). The final is cumulative. In this course, scores of 95% and above are A's; 90 to 95 are A-'s; Scores in the 80's are B's. Scores in the 70's are C's. And so on. The standard may be a little more lenient in practice, but there is no curve.

Short Paper: As the first homework after the midterm, write a paper of 450-550 words (include a word count) on the question of whether regulation of insurance should be by the states or by the federal government. Use readings numbers 22 through 27 as the basis of the paper. The paper should be neatly laser printed. Your name should appear in the upper right hand corner. No covers please.

Economics 174 Spring 2007

Readings:

1. 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.
2. Leslie Berestein, "Decision: Should we stay or should we go?" **San Diego Union-Tribune**, November 2, 2003, p. H1
3. Roger M. Showley, "Rebuild? A series of hurdles ahead," **San Diego Union-Tribune**, November 2, 2003, p. H8.
4. Leslie Berestein, "Some victims now find their homes are underinsured," **San Diego Union-Tribune**, November 4, 2003, p. 1
5. Roger M. Showley, "Homeowner discuss rebuilding," **San Diego Union-Tribune**, November 9, 2003.
6. Alex Roth, "For uninsured, where to turn?" **San Diego Union-Tribune**, November 9, 2003.
7. Mike Freeman, "Check insurance, past victims say," **San Diego Union-Tribune**, November 2, 2003, p. A22.
8. Roger M. Showley, "Oakland learned from losses in '91," **San Diego Union-Tribune**, November 16, 2003.
9. Spencer L. Kimball, "Insurance Market Organization: A Primer," Appendix of **Cases and materials on Insurance Law**, Little, Brown, and Company, Boston, 1992, 681-703.
10. 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, p. 134-149.
11. 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, 105-115.
12. Spencer L. Kimball, "Interpretation of Insurance Contracts," Chapter 1, sections A, B, and part of C, of **Cases and materials on Insurance Law**, Little, Brown, and Company, Boston, 1992, 3-10.
13. Insurance Services Office, "Building and Personal Property Coverage Form (1983), from the appendix of Robert E. Keeton and Alan I. Widiss, "Indemnity and Insurability: An Introduction" Chapter 3.1(a) through 3.3(e) of **Insurance Law: A Guide to Fundamental Principles, Legal Doctrines, and Commercial Practices: Student Edition**, West Publishing Company, St. Paul, Minnesota, 1988, p. 1014-1021.
14. Hal R. Varian, Chapter 12 "Uncertainty" pages 215-233 of **Intermediate Microeconomics: A Modern Approach, Seventh Edition**, W.W. Norton & Co. New York, 2006.

15. Theodore C. Bergstrom and Hal R. Varian, Chapter 12 "Uncertainty" pages 157-169 in **Workouts in Intermediate Microeconomics**, Sixth Edition, W.W. Norton & Co. New York, 2006.
16. Steven Sullivan, "Name Game: Trouble in the House of Lloyd's," **Contingencies**, 13(3), May/June, 2001, 31-35.
17. Steven Sullivan, "Mutual Adversaries: The Debate Over Mutual Holding Companies," **Contingencies**, 10(6), November/December, 50-55.
18. Herbert E. Goodfriend and Hal Sandstrom, "Demutualization -- The Other 'D' Word," **Contingencies**, May/June 1996, 42-45
19. Mavis A. Walters, "A Sweeping Industry Initiative Upholds Building Codes to Hold Down Losses," **Contingencies**, 7(1), January February 1995, 41-43.
20. Charles Scawthorn, "Insurance Loss Estimation: Performance after the Northridge Earthquake," **Contingencies**, 7(5) September/October 1995, 26-31.
21. Lawrence Richter Quinn, "Reinsurance and Wall Street vs. Mother Nature," **Contingencies**, 10(5), September/October 1998, 21-27.
22. Robert E. Keeton and Alan I. Widiss, "Allocation of Powers Among Federal and State Regulatory Institutions" Chapter 8.1(a) through 8.3(c) of **Insurance Law: A Guide to Fundamental Principles, Legal Doctrines, and Commercial Practices: Student Edition**, West Publishing Company, St. Paul, Minnesota, 1988, p. 930-952
23. Steven Sullivan, "Marta's List: The Pursuit of Holocaust Survivors' Lost Insurance Claims," **Contingencies**, July/August 1998, 18-25. .
24. Joan Hartnett-Barry, "Above All, Don't Panic: Confronting a Regulatory Exam from a State Insurance Department," **Contingencies**, 7(4), July/August 1995, 44, 46-47.
25. Glenn Pomeroy, "Insurance Regulation: States Do It Better," **Contingencies**, 10(1), January February 1998, 17-20.
26. William R. Jones, "Bring on the Gorilla," **Contingencies**, 10(1), January February 1998, 20-21.
27. Robert W. Stein, "Testing the Insurance Industry's Resolve on State Regulation," **Contingencies**, 13(4), July/August 2001, 10, 12.
28. Bruce D. Schobel and Robert J. Myers, "Japanese Mortality Rates: The Best in the World," **Contingencies**, 9(1), January/February 1997, 32-35.
29. Charles L. Trowbridge, "Marriage, Sex, and Mortality," **Contingencies**, 7(6), November/December 1995, 24-31.
30. C. Allen Pinkham, "Dangerous Lives?" **Contingencies**, 13(4), July/August 2001, 18-22.
31. Joseph M. Belth, "Viatical and Life Settlement Transactions," **Contingencies**, 14(2), March/April, 2002, 22-25.
32. Erich W. Sippel and Alan H. Buerger, "Viatical Response," **Contingencies**, 14(4), July/August 2002, 6-8.
33. Mark V. Pauly, "The Economics of Moral Hazard: Comment," **American Economic Review**, 58, 1968, pp. 531-537.
34. George Akerlof, "The Market for Lemons: Quality Uncertainty and the Market Mechanism," **Quarterly Journal of Economics**, 1970, pp. 488-500.
35. Anonymous: Partial schedule of life insurance charges.

36. David Mayers and Clifford W. Smith, Jr., "On the Corporate Demand for Insurance," **Journal of Business**, **55**, 1982.
37. California State Assembly, Insurance Committee, Thomas M. Calderon, Chair "Report on the Department of Insurance" approximately June 2000, excerpts.

Tentative Outline

Introduction

Insurable interest (9-13). Why it matters.

Deductibles, copayments, upper limits, exclusions (1-8)

Demand for insurance

Expected utility (14-15)

Full Insurance

Mutual Insurance (17-18)

Disaster Insurance (1-8, 19-21)

Regulation of insurance (9, 22-27)

Laws of large numbers and scale economies

Moral hazard in property insurance

Moral hazard in health insurance (33)

Life insurance (28-32)

Adverse selection (34)

Dynamic adverse selection (35)

Corporate demand for insurance (36)

Ethics (37)