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| Title | (Over)insuring Modest Risks |
| Authors | Sydnor |
| Journal | American Economic Journal: Applied Economics 2 (October 2010): 177-199 |
| Year etc. | 2010 |
| Research question | How averse are people to moderate risks in empirical market settings? |
| Country | the United States |
| Sample size | 50000 |
| Unit of obs. | policies of a home insurance company |
| Time range | post-2000 |
| Identification strategy | Empirical data: Customers choose their level of coverage of the insurance from the menu of four available deductibles: $1,000, $500, $250, and $100. They observed how much the customers’ cost is for the extra coverage.  After observing the choice made by the customers, they explored the standard expected utility models, by estimating the measure of the risk aversion by CRRA and CARA. |
| Findings | People are actually averse to modest risks. Customers on average pay $100 to additional $500 deductible, even though the expected additional coverage is $25 according to the observed claim rate. Customers are unrealistically risk-averse, which reject diminishing sensitivity of them. Additionally, alternative interpretations do not seem to explain the results. If they overestimate the claim rate, they must consider it at least as 5 times as the real probability. Standard formulations of the prospect theory do not fully fit the observed demand for the insurance, either. |
| Contribution (novel points) | Little literature has been exploring the relevance of the new models of decision making under risk in empirical market settings.  Suggested that there may be value in exploring alternative preference models on insurance markets, showing the results that are inconsistent with that of expected utility theory, the reference dependence or other alternatives. |
| Note/Remark |  |