

Expected income, \hat{y}

Insurance reduces
risk exposure
and increases,
but does not
maximize, utility

u_2

u_1

$\hat{y}(\Delta)$

Insurance
contract

\hat{y}^n

\hat{y}_s^b

b

n

$p_s \cdot s =$ Insurance
premium

Decreased
risk exposure
due to insurance, s

Δ_s^b

Δ^n

Degree of risk, Δ

