

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}_b^s

b

n

$p_s \cdot s =$ Insurance
premium

Decreased
risk exposure due
to insurance, s

Δ_b^2

Δ_n

Degree of risk, Δ

