## Key Terms

adverse selection

when groups with inherently higher risks than the average person seek out insurance, thus straining the insurance system

asymmetric information

a situation where the seller or the buyer has more information than the other regarding the quality of the item for sale

coinsurance

when an insurance policyholder pays a percentage of a loss, and the insurance company pays the remaining cost

collateral

something valuable—often property or equipment—that a lender would have a right to seize and sell if the buyer does not repay the loan

copayment

when an insurance policyholder must pay a small amount for each service, before insurance covers the rest

cosigner

another person or firm who legally pledges to repay some or all of the money on a loan if the original borrower does not

deductible

an amount that the insurance policyholders must pay out of their own pocket before the insurance coverage pays anything

fee-for-service

when medical care providers are paid according to the services they provide

health maintenance organization (HMO)

an organization that provides health care and is paid a fixed amount per person enrolled in the plan—regardless of how many services are provided

imperfect information

a situation where either the buyer or the seller, or both, are uncertain about the qualities of what they are buying and selling

insurance

method of protecting a person from financial loss, whereby policy holders make regular payments to an insurance entity; the insurance firm then remunerates a group member who suffers significant financial damage from an event covered by the policy

money-back guarantee

a promise that the seller will refund the buyer’s money under certain conditions

moral hazard

when people have insurance against a certain event, they are less likely to guard against that event occurring

occupational license

licenses issued by government agencies, which indicate that a worker has completed a certain type of education or passed a certain test

premium

payment made to an insurance company

risk group

a group that shares roughly the same risks of an adverse event occurring

service contract

the buyer pays an extra amount and the seller agrees to fix anything specified in the contract that goes wrong for a set time period

warranty

a promise to fix or replace the good for a certain period of time