

EC 151 Homework IX
Insurance Markets
Turn-in at final

1) Informational problems & Limited Insurance

Make sure you understand all the steps required to derive the second-best/limited insurance that can be offered in the presence of moral hazard.

Read section 15.3.2, derive equations 15.4 and 15.5, explaining what they mean and showing all intermediate steps.

Why is this insurance called “second-best” insurance and why can’t we implement the first-best one?

2) Insurance & Incentives

Chapter 15, problem 6 a,b