

THEORY OF RISK AND INSURANCE

Reading List

Background Texts

- Arrow, K. J. (1971), *Essays in the Theory of Risk Bearing*, Markham Publishing, ISBN 8410-2001-9.
- Dionne, G., ed., (2000), *Handbook of Insurance*, Kluwer Academic Publishers, ISBN 0-7923-7870-9.
- Eeckhoudt, L., C. Gollier and H. Schlesinger, *Economic and Financial Decisions under Risk*, 2005, Princeton University Press. ISBN 0691122156 (paperback edition).
- Gollier, C. (2001), *The Economics of Risk and Time*, MIT Press, ISBN 0-262-07215-7.

1. Expected Utility

- Fishburn, P. (1989), "Retrospective on the Utility Theory of von Neumann and Morgenstern," *Journal of Risk and Uncertainty*.
- Schoemaker, P. (1982), "The Expected Utility Model: Its Variants, Purposes, Evidence and Limitations," *Journal of Economic Literature*.

2. Risk Aversion, Prudence and Temperance

- Caballe, J. and A. Pomansky (1996), "Mixed Risk Aversion," *Journal of Economic Theory*.
- Eeckhoudt, L. and H. Schlesinger (2006), "Putting Risk in its Proper Place," *American Economic Review*.
- Kimball, M. (1990), "Precautionary Savings in the Small and in the Large," *Econometrica*.
- Kimball, M. (1993), "Standard Risk Aversion" *Econometrica*.
- Pratt, J. (1964), "Risk Aversion in the Small and in the Large," *Econometrica*.
- Rabin, M. (2000), "Risk Aversion and Expected-Utility Theory: A Calibration Theorem," *Econometrica*.
- Yaari, M. (1969), "Some Remarks on Measures of Risk Aversion and Their Uses," *Journal of Economic Theory*.

3. Rational Insurance Purchasing

- Eeckhoudt, L. and C. Gollier (1999), "Insurance of Lower Probability Events," *Journal of Risk and Insurance*.
- Hoy, M. and A. Robson (1981), "Insurance as a Giffen Good," *Economics Letters*.

Mossin, J. (1968), "Aspects of Rational Insurance Purchasing," *Journal of Political Economy*.

Schlesinger, H. (1981), "The Optimal Level of Deductibility in Insurance Contracts," *Journal of Risk and Insurance*.

4. Insurance with Multiple Risks

Doherty, N. and H. Schlesinger (1983), "Optimal Insurance in Incomplete Markets," *Journal of Political Economy*.

Doherty, N. and H. Schlesinger (1990), "Rational Insurance Purchasing: Consideration of Contract Nonperformance," *Quarterly Journal of Economics*.

Eeckhoudt, L. and M. Kimball (1992), "Background Risk, Prudence and the Demand for Insurance," in G. Dionne (ed.), *Contributions to Insurance Economics*, Kluwer.

Franke, G., H. Schlesinger and R. Stapleton (2006), "Multiplicative Background Risk," *Management Science*

Gollier, C. and J. Pratt (1996), "Risk Vulnerability and the Tempering Effect of Background Risk," *Econometrica*.

Ito, T. and M. Machina (1983), "The Incentive Implications of Incomplete Insurance: The Multiplicative Case," *Economics Letters*.

Kihlstrom, R., D. Romer and S. Williams (1981), "Risk Aversion with Random Initial Wealth," *Econometrica*.

Mayers, D. and C. Smith (1983), "The Interdependence of Individual Portfolio Decisions and the Demand for Insurance," *Journal of Political Economy*.

Nachman, D. (1982), "Preservation of 'More Risk Averse' Under Expectations," *Journal of Economic Theory*.

Pratt, J. and R. Zeckhauser (1987), "Proper Risk Aversion," *Econometrica*.

Ross, S. (1981), "Some Stronger Measures of Risk Aversion in the Small and in the Large with Applications," *Econometrica*.

5. Increases in Risk

Athey, S. (2002), "Monotone Comparative statics under Uncertainty," *Quarterly Journal of Economics*.

Diamond, P. and J. Stiglitz (1974), "Increases in Risk and in Risk Aversion," *Journal of Economic Theory*.

Dionne, G., L. Eeckhoudt and C. Gollier (1993), "Increases in Risk and Linear Payoffs," *International Economic Review*.

Eeckhoudt L. and C. Gollier (1995), "Demand for Risky Assets and the Monotone Probability Ratio Order," *Journal of Risk and Uncertainty*.

Eeckhoudt, L., C. Gollier and H. Schlesinger (1996), "Changes in Background Risk and Risk-Taking Behavior," *Econometrica*.

Gollier, C. (1995), "The Comparative Statics of Changes in Risk Revisited," *Journal of Economic Theory*.

- Hadar, J. and W. Russell (1969), "Rules for Ordering Uncertain Prospects," *American Economic Review*.
- Hadar, J. and T.K. Seo (1990), "The Effects of Shifts in a Return Distribution on Optimal Portfolios," *International Economic Review*.
- Hanoch, G. and H. Levy (1969), "The Efficiency Analysis of Choices Involving Risk," *Review of Economic Studies*.
- Jindapon, P. and W. Neilson (2007), "Higher-Order Generalizations of Arrow-Pratt and Ross Risk Aversion: A Comparative Statics Approach," *Journal of Economic Theory*.
- Machina, M. (1989) "Comparative Statics and Non-Expected Utility Preferences," *Journal of Economic Theory*.
- Menezes, C., C. Geiss and J. Tressler (1980), "Increasing Downside Risk," *American Economic Review*.
- Meyer, J. and M. Ormiston (1989), "Deterministic Transformations of Random Variables and the Comparative Statics of Risk," *Journal of Risk and Uncertainty*.
- Rothschild, M. and J. Stiglitz (1970), "Increasing Risk: I: A Definition," *Journal of Economic Theory*.
- Rothschild, M. and J. Stiglitz (1971), "Increasing Risk II: Its Economic Consequences," *Journal of Economic Theory*.
- Whitmore, G. (1970), "Third-Degree Stochastic Dominance," *American Economic Review*.

6. Optimal Risk Sharing

- Arrow, K. (1963), "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*.
- Blazenko, G. (1985), "Optimal Indemnity Contracts," *Insurance: Mathematics and Economics*.
- Gollier, C. and H. Schlesinger (1995), "Second Best Insurance Contracts in an Incomplete Market," *Scandinavian Journal of Economics*.
- Gollier, C. and H. Schlesinger (1996), "Arrow's Theorem on the Optimality of Deductibles: A Stochastic Dominance Approach," *Economic Theory*.
- Karni, E. (1992), "Optimal Insurance: A Nonexpected Utility Analysis," in G. Dionne (ed.), *Contributions to Insurance Economics*, Kluwer.
- Mahul, Olivier and Brian D. Wright (2004), "Implications of Incomplete Performance for Optimal Insurance," *Economica*.
- Raviv, A. (1979), "The Design of an Optimal Insurance Policy," *American Economic Review*.
- Zilcha, I. and S. H. Chew (1990), "Invariance of the Efficient Sets when the Expected Utility Hypothesis is Relaxed," *Journal of Economic Behavior and Organization*.

7. Non-Expected Utility Theory

- Arrow, K. (1974), "Optimal Insurance and Generalized Deductibles." *Scandinavian Actuarial Journal*.
- Braun, M. and A. Muermann (2004) "The Impact of Regret on the Demand for Insurance", *Journal of Risk and Insurance*.
- Cook, P. and D. Graham (1977), "The Demand for Insurance Protection: The Case of Irreplaceable Commodities," *Quarterly Journal of Economics*.
- Doherty, N. and L. Eeckhoudt (1995), "Optimal Insurance without Expected Utility: The Dual Theory and the Linearity of Insurance Contracts," *Journal of Risk and Uncertainty*.
- Gilboa, I., and D. Schmeidler (1989), "Maxmin Expected Utility with a Non-Unique Prior", *Journal of Mathematical Economics*.
- Kahneman, D. and A. Tversky (1979), "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*.
- Kahneman, D. and A. Tversky (1992), "Advances in Prospect Theory: Cumulative Representation of Uncertainty," *Journal of Risk and Uncertainty*.
- Karni, E. (1983), "Risk Aversion for State Dependent Utility Functions: Measurement and Application," *International Economic Review*.
- Machina, M. (1987), "Choice Under Uncertainty: Problems Solved and Unsolved," *Journal of Economic Perspectives*.
- Machina, M. (1995), "Non-Expected Utility and the Robustness of the Classical Insurance Paradigm," *Geneva Papers on Risk and Insurance Theory*.
- Meyer, J. (1987), "Two-Moment Decision Models and Expected Utility Maximization," *American Economic Review*
- Schlesinger, H. (1997), "Insurance Demand without the Expected-Utility Paradigm," *Journal of Risk and Insurance*.
- Segal, U. and A. Spivak (1990), "First Order vs. Second Order Risk Aversion," *Journal of Economic Theory*.
- Starmer, C. (2000), "Development in Non-Expected Utility Theory: The Hunt for a Descriptive Theory of Choice under Risk," *Journal of Economic Literature*.
- Yaari, M. (1987), "The Dual Theory of Choice under Risk," *Econometrica*.

8. Adverse Selection

- Agarwal, V. and J. Ligon (1998), "Adverse Selection and Contract Nonperformance," *Journal of Risk and Insurance*.
- Akerlof, G. (1970), "The Market for 'Lemons': Qualitative Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*.

- Arnott, R. and J. Stiglitz (1988), "Randomization with Asymmetric Information," *Rand Journal of Economics*.
- Chiappori, P.A. and B. Salanié (2000), "Testing for Asymmetric Information in Insurance Markets," *Journal of Political Economy*.
- Cooper, R. and B. Hayes (1987), "Multi-period Insurance Contracts," *International Journal of Industrial Organization*.
- Crocker, K. and A. Snow (1986), "The Efficiency of Categorical Discrimination in the Insurance Industry," *Journal of Political Economy*.
- D'Arcy, S. and N. Doherty (1990), "Adverse Selection, Private Information and Lowballing in Insurance Markets," *Journal of Business*.
- Dionne, G. and N. Doherty (1994), "Adverse Selection, Commitment and Renegotiation: Extension to and Evidence from Insurance Markets," *Journal of Political Economy*.
- Doherty, N. and H. Schlesinger (1995), "Severity Risk and the Adverse Selection of Frequency Risk," *Journal of Risk and Insurance*.
- Doherty, N. and P. Thistle (1996), "Adverse Selection with Endogenous Information in Insurance Markets," *Journal of Public Economics*.
- Engers, M. and L. Fernandez (1987), "Market Equilibrium with Hidden Knowledge and Self-Selection," *Econometrica*.
- Ligon, J. and P. Thistle (2005), "The Formation of Mutual Insurers in Markets with Adverse Selection." *Journal of Business*
- Miyazaki, H. (1977), "The Rat Race and Internal Labor Markets," *Bell Journal of Economics*.
- Puelz, R. and A. Snow (1994), "Evidence on Adverse Selection: Equilibrium Signalling and Cross Subsidization in the Insurance Market," *Journal of Political Economy*.
- Rothschild, M. and J. Stiglitz (1976), "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics*.
- Stiglitz, J. (1977), "Monopoly, Non-Linear Pricing and Imperfect Information: The Insurance Market," *Review of Economic Studies*.
- Wilson, C. (1977), "A Model of Insurance Markets with Asymmetric Information," *Journal of Economic Theory*.

9. Ex Ante Moral Hazard

- Harris, M. and A. Raviv (1978), "Some Results on Incentive Contracts with Applications," *American Economic Review*.
- Holmström, B. (1979), "Moral Hazard and Observability," *Bell Journal of Economics*.
- Marshall, J.M. (1976), "Moral Hazard," *American Economic Review*.
- Pauly, M. (1968), "The Economics of Moral Hazard," *American Economic Review*.
- Pauly, M. (1974), "Overinsurance and Public Provision of Insurance," *Quarterly Journal of Economics*.

Rubinstein, A. and M. Yaari (1983), "Repeated Insurance Contracts and Moral Hazard," *Journal of Economic Theory*.

Shavell, S. (1982), "On Liability and Insurance," *Bell Journal of Economics*.

Shavell, S. (1979), "Risk Sharing and Incentives in the Principal and Agent Relationship," *Bell Journal of Economics*.

Shavell, S. (1979), "On Moral Hazard and Insurance," *Quarterly Journal of Economics*.

Stiglitz, J. (1983), "Risk, Incentives and Insurance: The Pure Theory of Moral Hazard," *Geneva Papers on Risk and Insurance*.

10. Alternative Risk Transfer

Culp, C. (2002), *The ART of Risk Management*, John Wiley and Sons, ISBN 0-471-12495-8

Doherty, N. (1997), "Innovations in Managing Catastrophe Risk," *Journal of Risk and Insurance*.

Doherty, N. and H. Schlesinger (2002), "Insurance Contracts and Securitization," *Journal of Risk and Insurance*.

Froot, K.A. (2001), "The Market for Catastrophe Risk: A Clinical Examination." *Journal of Financial Economics*.

Froot, K.A., D. Scharfstein and J. Stein (1993), "Risk Management: Coordinating Investment and Financing Problems," *Journal of Finance*.

Jaffee, D. and T. Russell (1997), "Catastrophe Insurance, Capital Markets and Uninsurable Risks," *Journal of Risk and Insurance*.

Louberge, H., E. Kellezi and M. Gilli (1999), "Using Catastrophe-Linked Securities to Diversify Insurance Risk: A Financial Analysis of Cat Bonds," *Journal of Insurance Issues*.