

Microeconomics, Module 24, "Risk and uncertainty" (chapter 18)

*Required reading for seventh edition:*

(The attached PDF file has better formatting.)

Updated: December 2, 2007

{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read section 18.1, "Attitudes towards Risk," on pages 563-574. This section is trivial for actuarial candidates; you learn about expected values (see page 565) and other items that you already know. Focus on the conclusions in green type on page 568-570. The final exam tests these conclusions.

Skip the sub-section on "Risk and Society" on pages 574-576.

Read section 18.2, "The Market for Insurance," on pages 576-578, skipping the last sub-section on "Uninsurable Risks." On the Exam 8 syllabus for the CAS you read the Bodie, Kane, and Marcus text, which has a better explanation of uninsurable risks. The diversification is among the shareholders (or owners) of the insurance company, not among the risks.

The readings for the last three modules are short. Much of the material in these chapters is covered in the corporate finance course and the macroeconomic course. Use your study time in the last week to review the earlier modules for the final exam.