

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

*Micro module 24: Readings for the eighth edition*

(The attached PDF file has better formatting.)

Updated: October 21, 2010

{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 563-575. This section is trivial for actuarial candidates; you learn to compute expected values and similar items. Focus on the conclusions in colored type on pages 568 and 569. Know the general principle on the top of page 575. The final exam tests these conclusions.

Read section 18.2, "The Market for Insurance," on pages 576-578, skipping the last subsection on "Uninsurable Risks." Landsburg's explanation of uninsurable risks is not as good as the explanation on the actuarial exams, so the final exam does not test it. Diversification is among the shareholders (or owners) of the insurance company, not among the risks.

The reading for this module is short. Review the past modules for the final exam.

Review questions R4 and R5 on page 596.

Review problem 6 on page 597. The final exam gives problems with risk averse and risk preferring persons.

Review problem 11 on page 598. This reflects a major difference among countries: some governments react to terrorism with immediate force; others respond with negotiation. Which response is likely to cause higher deaths to civilians?

Review problem 12 on page 598. The data are too sparse to answer completely the problem, but it is a good problem for actuaries.