

Microeconomics, Module 6, "The Behavior of Firms"

*Homework Assignment*

(The attached PDF file has better formatting.)

Some of the largest auto insurance companies are low cost companies. Jacob and Rachel disagree about the implications.

*Jacob:* This phenomenon is evidence that auto insurance has economies of scale, so the larger firms have lower costs.

*Rachel:* This phenomenon is evidence that the insurance market is competitive, so lower cost firms succeed and grow to be the larger firms.

Based on the readings in Module 6, explain the reasoning of Jacob and Rachel, and relate their views to whether insurance is a constant cost industry or a decreasing cost industry. (One paragraph is sufficient for this homework assignment.)