

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

*Micro module 24: Readings for the ninth edition*

(The attached PDF file has better formatting.)

{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 skipped sections are fascinating, but are not tested.}

Read section 18.1, "Attitudes towards Risk." This section is easy for actuarial candidates (expected values and similar items). Focus on the conclusions in colored type on pages 564 and 565, and know the principle on the bottom of page 569. The final exam tests these conclusions.

Read section 18.2, "The Market for Insurance," skipping the last sub-section 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 592; the final exam has multiple choice questions on these topics.

Review problem 6 on pages 592-593. The final exam gives problems with risk averse and risk preferring persons.

Review problem 11 on page 593. 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 593. The data are too sparse to answer completely the problem, but it is a good problem for actuaries.