

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

*Micro module 24: Readings for the tenth 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). Know how risk neutral and risk averse persons gamble on small vs large amounts at fair vs favorable odds. 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.

Answer end of chapter Review Questions R1, R2, R4, R5; the final exam has multiple choice questions on these topics.

Review end of chapter problems 1, 3, 6. The final exam gives problems with risk averse and risk preferring persons.

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