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An Economic Model of Simultaneous Purchasing of Both an Insurable Asset and Insurance Coverage

Mahito Okura (Associate Professor, Faculty of Economics, Nagasaki University)

Abstract:

This study investigates the situation in which a consumer simultaneously purchases both an insurable asset and insurance coverage. The main results of this study are as follows. First, the optimal amount of the insurable asset in a risky situation is smaller than it is in a nonrisky situation. Second, when the insurance premium rate is actuarially fair, the accident probability distribution does not affect the optimal amount of the insurable asset because the consumer purchases full insurance coverage. Third, when the insurance premium rate is actuarially unfair, whether the optimal amount of the insurable asset is larger than it is in the actuarially fair case is ambiguous.

Keywords:

Insurable asset, Insurance coverage, Economic model

JEL Classification:

G22, D81