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The Value of Demand Information in an Insurance Market under Demand and Cost Uncertainty

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Abstract:

This research investigates the value of demand information in an insurance market when there is both demand and cost uncertainty. The main results of this research are as follows. First, the insurance firm's equilibrium certainty equivalent increases when the investment cost of reducing the firm's degree of absolute risk aversion increases and cost uncertainty lowers. Second, the value of demand information increases when investment costs increase, demand uncertainty increases, and cost uncertainty lowers. This result implies that demand and cost uncertainty have opposite effects in determining the value of demand information in an insurance market.

Keywords:

Demand uncertainty, Cost uncertainty, Insurance, Information