



INSURANCE MANAGEMENT
(VERSICHERUNGSÖKONOMIE)

Prof. Harris SCHLESINGER

Raum: _____ Tel.: 88 _____

Sprechstunde: Mi. 9.00 – 10.00 Uhr

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This course develops some fundamental concepts in insurance economics and insurance management. The goal is to create a solid foundation for understanding the basics of the theory and practice of insurance. We will start with basic theoretical insurance models and then discuss some financial and economic issues in dealing with risk management and insurance.

Reading Materials:

There is no required text for this course. The exam (Klausur) will be based upon class notes. The following readings for the course can be downloaded (pdf) from my website:

- (S1) **Schlesinger, H.** (2000), “The Theory of Insurance Demand,” in G. Dionne, ed., *The Handbook of Insurance*, Kluwer.
- (S2) **Schlesinger, H.** (1997), “Insurance Demand without the Expected Utility Paradigm,” *Journal of Risk & Insurance*.

The books below provide helpful additional reading materials. They are on reserve in the library.

(EGS) Eeckhoudt, L., C. Gollier and H. Schlesinger (2005), *Economic and Financial Decisions under Risk*, Princeton University Press, ISBN 0-691-09655-4

(HN) Harrington, S. and G. Niehaus (2004), *Risk Management and Insurance*, McGraw-Hill, ISBN 0-07-233970-5.

(O) Outreville, J.-F. (1998), *Theory and Practice of Insurance*, Kluwer, ISBN 0-7923-9996-X

(RW) Rees, R. and A. Wambach (2008), *The Microeconomics of Insurance*, in *Foundations and Trends in Microeconomics* 4, ISSN 1547-9846

(SHS) Seog, S. H. (2010), *The Economics of Risk and Insurance*, Wiley-Blackwell, ISBN 978-1-4051-8552-3

Zweifel, P. and R. Eisen (2003), *Versicherungsökonomie* (2nd Edition), Springer, ISBN 3-540-44106-9

There may be additional materials handed out in class.

TENTATIVE OUTLINE

| <u>Topic</u> | <u>Suggested Reading Chapters</u> (Recommended reading in bold) |
|---|--|
| 0. Probability Spaces and Random Variables (Not directly tested on the Klausur) | web links |
| 1. Expected Utility, Risk and Risk Aversion Expected Utility Risk Aversion Stochastic Dominance | EGS 1, 2 SHS 1, 2 |
| 2. Insurance Demand Mossin's Theorem Comparative Statics Background Risk and Default Risk | S1 SHS 4, RW 2 |
| 3. Deductible Insurance Contracts Optimal Levels of Coverage Optimality of the Deductible Contract | S1 RW 2 |
| 4. Nonexpected Utility Models Prospect Theory Rank Dependent Expected Utility | S2 |
| 5. Asymmetric Information Adverse Selection Moral Hazard | EGS 12 SHS 7, 8 , RW 4, 5 |
| 6. Reinsurance and Alternative Risk Transfer Reinsurance Basics ART Catastrophic Risks and Terrorism Extremus | Sigma & Extremus downloads, O 14 HN 25 |
| 7. The Insurance Product Insurance Pricing Basics Insurance Contracts | O8, O9, HN8, HN15 SHS 15 |
| 8. Insurance Supply (as time allows) Insurer Operations Accounting Basics Regulation of Insurers | O11, O15, O16, HN 6 SHS 11, 14 |