

Econ 256 final

Economics, Insurance



2. Why do economists generally regard median income as a better measure of a typical American's well-being than mean income? Dfiodifaje 3. Why do the United States, and many other countries, have antitrust laws on the books? What's so harmful about oligopoly that warrants an entire body of law? The United States and many other countries have antitrust laws on the books to protect their consumers in their different markets. Having the abilities to both raise and lower prices are the reasons that oligopolies are so harmful. . Two consumers go to the insurance company to purchase some life insurance. James is a smoker and a police officer who races motorcycles in his spare time. Kathy is a nonsmoker and a librarian who likes to make quilts in her spare time. The insurance company knows that both consumers are 40 years old, but the company has no information about occupations or hobbies. How does the private information in this situation create an adverse-selection problem? How could the insurance company lessen this problem?

Without knowing the background information on the potential clients, insurance companies are without the ability to see that while James is risking his life as a police officer, he is also a smoker and racer. He's putting his life on the line and still increasing the risk of injuries. The insurance should have a line on their application that asks for applicants for their occupation, whether they are smokers or if they drink, and lastly what they enjoy doing in their spare time.

With having this information, the company can see what each of the individuals really needs insurance-wise. 6. Jane works part-time and earns \$12, 000 per year. Because she is below thepovertyline, she also earns \$4,

000 in various welfare benefits. Suppose she is offered a new job that would pay her \$15, 000 and would bring her earnings high enough so that she no longer qualified for any welfare benefits. This is what is known as a “notch”. Explain what is happening with Jane and how could we modify the system to eliminate the notch.