Industrial growth and competition

[Literature](), [Russian Literature]()

MORAL HAZARD IN EVERYDAY’S LIFE By Location Moral hazard is used to refer to a situation where an individual gets involved in a risky incident by having the knowledge that it is protected against the risk. The party also knows that another party will incur the cost (De la Rosa 2011). Moral hazard may also occur when the borrower is aware that another party will pay for a mistake one makes. Moral Hazard arises when under some situations people change their behaviors and takes more risks, and where the actions of a party changes to the disadvantage of the other after a financial transaction occur. It arises from the idea that an individual protected from risk will act in a different way than if they did not have that protection (Weber 2014).

Moral hazard originated in the insurance industry where Insurance firms realized that by protecting their customers from risks, they might be encouraging risky behaviors. In cases where there are high potential claims, an insurance firm will charge higher premiums. A moral hazard exists in these situations (Winter 2013):

Lack of shared information: One party may happen to possess more information than the other party. For instance, a company selling investments may be aware that it will not succeed in the next two years based on its performance. Investors investing in the firm due to lack of enough information may think that the company is doing well.

Principal-agent problem: When an agent or insurance broker is not in alignment with the individual it represents, moral hazards can exist. For instance, an insurance agent may recommend a bigger policy if that is the way of getting a special bonus.

In some situations, the membership of the Euro may cause some moral hazards. A country in the community may imagine that if it faces many challenges, the other members will bail it out. For instance, a state may decide to grow its debts knowingly. When Greece joined the Euro, it took advantage of low-interest rates because of its membership in the Euro. The low-interest rates encouraged the country to keep borrowing until it realized too late that the country had borrowed too much. Greece continued to borrow knowing that it enjoyed low interest rates because of its membership in the Euro (Dam & Koetter 2012).

If an individual has not insured his house, it implies that he will suffer losses in case of burglary or fire. An individual will be compelled to be careful by installing burglar alarms and employ guards to evade any unexpected event (Jaspersen & Richter 2015). In case a house is insured for its full value, if any bad thing happens, the owner will not lose anything. It implies that the owner has less incentive to protect against any disaster. In this situation, the insurance company will pay for the losses leading to the issue of moral hazard. If one is not insured, one will ensure he brushes his teeth regularly to avoid teeth problems. However, if the same person gets dental insurance, he may not brush his teeth as he used to do since the insurance firm will cater for the cost if teeth issues arise.

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