

FROM THE LIBRARY SHELF

Phyllis Schiller Myers

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THEORY OF CONTRACTS

Value of Communication in Agencies, by Nahum D. Melumad and Stefan Reichelstein (Stanford University).

Focusing on an agency model in which the agent receives private information prior to contracting, we analyze whether the principal benefits from offering the agent a menu of contracts. We show that, under certain conditions, the constraints imposed by the self-selection requirement are so restrictive that a menu of contracts has no value, i.e., the principal might as well offer a single contract based only on some jointly observed outcome. Conversely, we identify cases where a menu of contracts is valuable because it allows the principal to implement a more efficient incentive structure. *Journal of Economic Theory*, Vol. 47 (April 1989), pp. 334-68. (Reprinted with permission of the *Journal of Economic Theory*).

RISK PERCEPTION AND ECONOMIC BEHAVIOR

Separability and Risk in the Static Household Production Model by Raul V. Fabela (University of the Philippines).

The author shows that unlike multiplicative risk, additive risk allows separability, regardless of risk attitude. He also shows that the Pope-Kramer multiplicative risk results in asymptotic separability, i.e., the larger the production scale, the more negligible is the influence of the disturbance term. Finally, he shows that additive risk mitigation through crop choice leaves the household production model separable in the sense of efficiency only. *Southern Economic Journal*, Vol. 55, No. 4 (April 1989), pp. 954-61. (Reprinted with permission of the *Journal of Economic Literature*).

Rates of Time Preference and Valuations of the Duration of Life, by W. Kip Viscusi and Michael J. Moore (Duke University).

This paper develops a multi-period Markov model of the lifetime choice of occupational fatality risks. The empirical model analyzes the wage effects of job risks using the 1982 University of Michigan Panel Study of Income

Dynamics in conjunction with death statistics from the U.S. National Traumatic Occupational Fatality Survey. Evidence regarding workers' intertemporal choices with respect to risks with long-term implications is broadly consistent with rational behavior. Workers' implicit real rate of time preference with respect to future life years equals approximately 11 percent. This rate of time preference decreases with education. *Journal of Public Economics*, Vol. 38, No. 3 (April 1989), pp. 297-317. (Reprinted with permission of North-Holland Publishing Company).

UTILITY THEORY

Comparative Statics and Non-expected Utility Preferences, by Mark J. Machina (University of California, San Diego).

Researchers have shown that many, though not all, of the basic results of expected utility analysis can be more or less directly generalized to non-expected utility preferences. This paper describes the essential difference between results which can be extended in this manner and those which cannot and shows that an important family of comparative statics theorems falls into the former class. *Journal of Economic Theory*, Vol. 47 (April 1989), pp. 393-405. (Reprinted with permission of the *Journal of Economic Theory*).

Generalized Expected Utility Analysis, by Edi Karni (Johns Hopkins University).

This paper extends M. J. Machina's generalized expected utility analysis to preferences over multivariate distributions. Within the extended framework, the relation "more risk averse than" is defined, characterized, and applied to the analysis of consumption-saving decisions under risk. The notion of decreasing risk aversion is also characterized. The paper shows that standard results obtained within the framework of expected utility theory can be extended if the restrictions imposed on the utility function in expected utility theory are imposed on the local utility functions in Machina's theory. *International Economic Review*, Vol. 30, No. 2 (May 1989), pp. 297-305. (Reprinted with permission of the *Journal of Economic Literature*).

RUIN THEORY

Estimation of Ruin Probabilities by Means of Hazard Rates, by Claudia Klüppelberg (University of Mannheim).

We show that the asymptotic behavior of the hazard rate of the claim-size distribution determines not only the singular point of the moment generating function but can also be used to estimate the asymptotic ruin probability. We shall use these results to classify the relevant claim-size distributions and calculate the respective ruin probabilities. Hereby we shall concentrate on the case where Cramer's method does not work. *Insurance: Mathematics and*

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