

choose to maintain a positive fraction of its resources in bequeathable forms, even if insurance markets were perfect. Evidence on the relationship between insurance purchases and total resources reinforces this conclusion. *Journal of Political Economy*, Vol. 99, No. 5 (October 1991), pp. 899-927. (Reprinted with permission of the *Journal of Political Economy*).

INSURER MANAGEMENT AND REGULATION

Premium Calculation Implications of Reinsurance Without Arbitrage, by Gary G. Venter (Workers' Compensation Reinsurance Bureau, Hoboken, New Jersey)

Constraints imposed on premium calculation principles are studied under one aspect of competitive market theory: the impossibility of systematic arbitrage. Principles based on second moments or utility theory are shown to lead to arbitrage possibilities, while some other principles do not. *Astin Bulletin*, Vol. 21, No. 2 (November 1991), pp. 223-30. (Reprinted with *Astin Bulletin*).

Assessing the Solvency of the Insurance Industry, by Burton G. Malkiel (Princeton University)

The article attempts to assess the ability of the insurance industry to discharge its liabilities and to settle in full the claims against it without resorting to any of the limited safety nets that exist. The article examines several indicators of the health of the industry including: (1) industry profitability, (2) the risk level of assets held, (3) the industry's capital cushion, (4) the duration match between assets and liabilities, and (5) possible agency problems induced by the operation of a safety net. In addition, other risks are considered including the escalating costs of settling claims and pressures to make insurance rates more affordable. The article concludes with a cautiously optimistic appraisal. The industry, with a few notable exceptions, is somewhat stronger than banking intermediaries. Concerns over a generalized solvency problem, such as that faced by the savings industry, appear misplaced. *Journal of Financial Services Research*, Vol. 5, No. 2 (October 1991), pp. 167-80. (Reprinted with permission of Kluwer Academic Publishers).

LIABILITY RULES

Decoupling Liability: Optimal Incentives for Care and Litigation, by A. Mitchell Polinsky (Stanford University and National Bureau of Economic Research) and Yeon-Koo Che (University of Wisconsin, Madison)

A "decoupled" liability system is one in which the award to the plaintiff differs from the payment by the defendant. The optimal system of decoupling makes the defendant's payment as high as possible. Such a policy allows the award to the plaintiff to be lowered, thereby reducing the

plaintiff's incentive to sue - and hence litigation costs - without sacrificing the defendant's incentive to exercise care. The optimal award to the plaintiff may be less than or greater than the optimal payment by the defendant. The possibility of an out-of-court settlement does not qualitatively affect these results. If the settlement can be monitored, it may be desirable to decouple it as well. *The RAND Journal of Economics*, Vol. 22, No. 2 (Winter 1991), pp. 562-70. (Reprinted with permission of *The RAND Journal of Economics*).

SAFETY AND LOSS CONTROL

Perceived Risk and the Marginal Value of Safety, by Douglas Gegax (New Mexico State University), Shelby Gerking (University of Wyoming, Laramie) and William Schulze (University of Colorado, Boulder).

Two contributions are made toward understanding variation in marginal value of safety estimates from labor market studies. First, marginal safety values are obtained from direct measurement of workers' perceived job-related accidental death rates. Second, wage-risk relationships are explored for several categories of workers using the hedonic price method. Statistically significant relationships found for unionized, blue collar, and blue collar-unionized workers imply marginal safety values of 1.5, 1.18, 2.10 million dollars, respectively. Further results in this paper suggest that alternative methods are needed to measure marginal safety values for workers in other categories. *The Review of Economics and Statistics*, Vol. LXXIII, No. 4 (November 1991), pp. 589-96. (Reprinted with permission of the North-Holland Publishing Company).

