insensitive to other factors generally thought to be important. *Journal of Business and Economic Statistics*, Vol. 9, No. 3 (July 1991), pp. 241-52. (Reprinted with permission of the *Journal of Economic Literature*).

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GOVERNMENT INSURANCE PROGRAMS

Is Fairly Priced Deposit Insurance Possible?, by Yuk-Shee Chan (University of Southern California, Stuart I. Greenbaum (Northwestern University) and Anjan V. Thakor (Indiana University)

We analyze risk-sensitive, incentive-compatible deposit insurance in the presence of private information and moral hazard. Without deposit-linked subsidies it is impossible to implement risk-sensitive, incentive-compatible deposit insurance pricing in a competitive, deregulated environment, except when the deposit insurer is the least risk averse agent in the economy. We establish this formally in the context of an insurance scheme in which privately informed depository institutions are offered deposit insurance premia contingent on reported capital: the result holds for alternative sorting instruments as well. This suggests a contradiction between deregulation and fairly priced, risk-sensitive deposit insurance. *The Journal of Finance*, Vol. XLVII, No. 1 (March 1992), pp. 227-45. (Reprinted with permission of *The Journal of Finance*).

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SOCIAL INSURANCE

The Role of Unemployment Insurance in an Economy with Liquidity Constraints and Moral Hazard, by Gary D. Hansen (University of California, Los Angeles) and Ayse Imrohoroğlu (University of Southern California)

The potential welfare benefits of unemployment insurance, along with the optimal replacement ratio, are studied using a quantitative dynamic general equilibrium model. To provide a role for unemployment insurance, agents in our economy face exogenous idiosyncratic employment shocks and are unable to borrow or insure themselves through private markets. In the absence of moral hazard, replacement ratios as high as .65 are optimal and the welfare benefits of unemployment insurance are quite large. However, if there is moral hazard and the replacement ratio is not set optimally, but is instead set to an empirically plausible value, the economy can be much worse off than it would be without unemployment insurance. *Journal of Political Economy*, Vol. 100, No. 1 (February 1992), pp. 118-41. (Reprinted with permission of the *Journal of Political Economy*).