toehold on the caselaw (with citations) will still want to consult a traditional treatise such as Keeton and Widiss's *Insurance Law,* cited in the bibliography.

Since the focus of the book is contract design, there is only a brief discussion of claims management and bad faith law. While the third-party bad faith doctrine, or the duty to settle rule, is not specifically discussed, the authors do summarize the unfair claims practices acts which have been adopted in many states. Readers with a greater interest in settlement issues will want to consult an additional source such as Henry Miller's *The Art of Advocacy: Settlement.*

The high point of the book is chapter 8, "Multiple Sources of Recovery." This chapter provides a detailed discussion of "other insurance" clauses. This is an important area which has unfortunately received little attention from insurance economists. For example, it is well known that quantity rationing of coverage is crucial to sustaining equilibria under conditions of adverse selection or moral hazard. In a competitive market where coverage is not perfectly observable, other insurance provisions may be an important mechanism for such rationing to occur. Those interested in pursuing research in this area would be well served by consulting this book's discussion of these provisions.

In sum, while written mainly for aspiring CPCU designates, this book should find a wide audience among insurance lawyers, insurance economists, and students who are interested in a general, nontechnical overview of insurance contract law and design.

Health, Prevention and Economics, by David R. Cohen and John B. Henderson (Oxford University Press, 1988).

Reviewer: Richard R. PonArul, Associate Professor of Finance, California State University, Chico

This book provides a comprehensive overview of the economics of prevention. The subject should be very stimulating to health economics professionals and scholars. However, the literature review style of presentation makes the book less sharp than it could have been. The book assumes no prior knowledge of economics (chapter 1 has a section titled "What Is Economics?") in order to target a broad audience. As a consequence, the treatment of the different topics is somewhat sketchy. Readers may have to supplement the book with the original articles listed in the references.

Starting with macroeconomics, the authors report evidence that the state of the economy and the level of national health are related. But the conclusion that macroeconomic policies that reduce unemployment are therefore probably preventive is an ambitious one, given the current disagreement among economists regarding the effectiveness of such macroeconomic policies.

Following a brief introduction to microeconomic reasoning in chapter 3, the authors justify intervention in the market for health care. In the remainder of the book, the need for intervention is not articulated on a case-by-case basis. In the next chapter, a framework for economic evaluation of prevention is provided. To justify a prevention program, all the costs and benefits must be valued. The economic valuation of longevity and quality of life does not follow easily from the rudiments of economics found in this book. The authors do not attempt to present any valuation methods (with the exception of surveys). Instead they conclude that valuation of such intangibles may be implicit in the decision made. The most important message of the book is that the maxim "prevention is better than cure" may not always be true, and it is important for policy-makers to determine the conditions under which it is true. But the reader is left with no means of putting the principles of economic appraisal into practice.

In evaluating prevention methods, the cost effectiveness analysis—comparing the cost of achieving the same targets by alternative means—appears to be more credible than the cost benefit analysis. Since a cost benefit analysis may ultimately be needed to justify the most cost effective prevention method, the problem of "intangibles" lingers. In reality, targets for health care and prevention are usually set by the political process and may continue to be so in the future.

Chapters 5 and 6 present various case studies in prevention efforts from an economic viewpoint, and these chapters are the most substantive in the book. In each case, the authors make a convincing argument for the consideration of alternative approaches to prevention. Early on, the authors point out that economic appraisal considers all costs, regardless of who bears them, and all benefits, regardless of to whom they accrue. Separation of private costs from social costs and private benefits from social benefits would have enriched the discussion of the public policy issues.

Most of the results reported in these two chapters are statistical in nature, but the confidence intervals are rarely reported. Nor is there any discussion of the sample selection methods used in these studies. (Chapter 4, which introduces such basic concepts as present value computations and marginal analysis, does not cover statistical estimation.) Despite these limitations, the reader is introduced to a rich array of literature on prevention.

The second half of the book (chapters 7 through 10) concentrates on formulation and evaluation of prevention programs. The discussion often strays from the standard microeconomic framework. For instance, preceding the discussion of risk aversion is the statement, "Expected loss is identical to risk." Also, the rate of discount does not seem to include the risk premium ("An identical present value of expected loss can generate different anxiety levels according to how risk averse individuals are"). In chapter 8, the authors argue that the demand for prevention may require a different type of analysis than the demand for shoes. The contribution by eminent economists such as Becker and Akerlof, who have extended microeconomic analysis to what is normally considered noneconomic domains, makes such a search unnecessary.

In sum, the book provides a valuable review of the literature on the economics of prevention, useful to both researchers and policy-makers in health economics. The book has two major weaknesses. The literature review style of presentation makes it difficult to sort out the principles used. The more important weakness is the problem regarding valuation of intangible costs and benefits. In the concluding section, the authors list the possible reasons why economic appraisal is not widely used in health care and prevention, including perceived threat to clinical freedom, nature of the political framework, and practical problems applying appraisal. The practical problems may well make inquiry into the other reasons unnecessary.

The Financial Condition and Regulation of Insurance Companies, edited by Richard W. Kopcke and Richard E. Randall (Federal Reserve Bank of Boston, 1991).

Reviewer: J. Allen Seward, Assistant Professor of Insurance and Finance, Baylor University

The Financial Condition and Regulation of Insurance Companies is a compilation of six papers, with discussions of each paper, that were presented to a conference sponsored by the Federal Reserve Bank of Boston in June 1991. The conference was motivated by the "dramatic changes in risk factors that have transformed the seemingly stable and dependable insurance industries into industries that could arouse widespread public anxieties" (pp. 1-2).

The book has a distinctively academic flavor. The discussants included a melange of industry practitioners, regulators, and public and private researchers. Because the participants included people from outside academia, the level of the papers is consistent with the upper level undergraduate students at most universities.

The keynote paper, "Insurance Companies as Financial Intermediaries: Risk and Return," by Kopcke and Randall, examines the size of insurers in the intermediary markets and the asset composition of both life and property-liability insurers. The authors are concerned with the increasing interest rate risk of the insurance industry and conclude that regulatory intervention to lessen exposure to the risk is as justified in insurance as it is in banking.

The next three papers focus on the "structure, conduct, and regulation" of the insurance industry. The first of these is a largely descriptive paper by Kenneth Wright that focuses on the broad trends in the life insurance industry in the post-World War II United States. Wright concludes that increased competitive pressures have weakened the life insurance industry over the last twelve years, but that the industry is still basically sound.

The second paper in this section, by David Cummins and Mary Weiss, addresses the domestic property-liability industry. The paper essentially updates and logically extends the analysis and data of Paul Joskow's (1973) classic paper. Cummins and Weiss compile and examine an impressive array of data to conclude that the property-liability industry is competitive and reasonably profitable, even if over-regulated. This paper is distinctive in that it summarizes the most current research in a way that is comprehensible to the nonacademic but true to the findings of the most significant theoretical work found in this journal.