*Theory,* June 1995, 66(1): 64-88. (Reprinted with permission of the *Journal of Economic Theory.*)

## Risk Perception and Economic Behavior

***Insurance, Adverse Selection, and Cream-Skimming,*** by Tracy R. Lewis and David E. M. Sappington (University of Florida)

We examine optimal insurance policies in a setting where some individuals are perfectly informed about the benefits they would receive under any proposed plan, and others share the insurance provider's imperfect knowledge about likely benefits. The optimal insurance policy is shown to take on a particularly simple linear form, providing full insurance for the smallest and the largest wealth realizations, and no insurance for a range of intermediate wealth realizations. This basic form of the optimal insurance policy persists in dynamic settings and those with endogenous information acquisition. *Journal of Economic Theory,* April 1995, 65(2): 327-358. (Reprinted with permission of the *Journal of Economic Theory.*)

***Agricultural Insurance and Soil Depletion in a Simple Dynamic Model,*** by R. Innes and S. Ardila

The authors study the effects of agricultural insurance on farm production choices, soil depletion, and environment when there are two related risks, one in short-to-medium run production revenues and the other in land value. The analysis considers "pure" and "truncating" insurance programs that stabilize linear combinations of short-run revenue risk and land-price risk. Production-revenue-stabilizing insurance is often found to elicit increased farmer output, thus exacerbating environmental externalities and causing further soil depletion. Land-value-stabilizing insurance typically elicits lower output, thus mitigating environmental externalities and pushing farmers closer to their complete-insurance output levels. *American Journal of Agricultural Economics,* August 1994, 76(3): 371-384. (Reprinted with permission of the *Journal of Economic Literature.*)

## Health Care

***Conceptualizing, Estimating, and Reforming Fraud, Waste, and Abuse in Health Care Spending,*** by Jerry L. Mashaw and Theodore R. Marmor

The elimination of waste, fraud, and abuse from U.S. medicine is not a quick or easy solution to the challenge of rising medical care costs. Many of the policy options available for reducing excesses face significant political hurdles or involve value judgments about non-quantifiable issues involving quality of care. Other alternatives seem as likely to bar necessary medical care as to eliminate abuses. In some instances, particularly those involving consumer fraud, a crackdown may merely shift costs without saving any money. Additionally, a number of suggestions for trimming waste and abuse involve ethical