



INSURANCE PURCHASING DECISIONS

Insurance as a Product of National Values, by Geert Hofstede (University of Maastricht and Tilburg, The Netherlands)

Insurance is an immaterial product that is valued subjectively by its recipients. The way this is done depends on the values that dominate in a certain society, values that have come into being through the years. In this article the dominant values of the Netherlands and of a number of other relevant countries are compared and linked with national insurance systems. Three important values are solidarity, independence, and predictability. Because of the influence national values exert, there are limits to the extent to which insurance systems can be imported and exported. This obviously has consequences for the role of the European Union. *The Geneva Papers on Risk and Insurance: Issues and Practices*, October 1995, 20(77): 423–429. (Reprinted with permission of *The Geneva Papers on Risk and Insurance*.)



UTILITY THEORY

Tests of Hypotheses about Certainty Equivalents and Joint Receipt of Gambles, by Younghee Cho and R. Duncan Luce (University of California, Irvine)

The present experiment was designed to test whether choice-induced certainty equivalents (CEs) and joint receipt (JR) of gambles exhibit certain properties such as the equality of JR and convolution, monotonicity of JR over gambles, additivity of JR over gambles and money, segregation of a common consequence, additive segregation when JR is replaced by +, and several other derivative properties. Subjects were partitioned into “gamblers” and “nongamblers” by their performance on screening gambles. Assuming that CE is order preserving, monotonicity of JR and additivity of JR over gambles were both rejected, whereas additivity of JR over money, segregation, and additive segregation were all sustained for gamblers and nongamblers. For gamblers, convolution is not monotonic but is equivalent to JR, and segregation and additive segregation are not equivalent. For nongamblers, convolution is monotonic but is not equivalent to JR, and segregation and additive segregation are probably equivalent.

Risk Attitudes and Decision Weights, by Amos Tversky (Stanford University) and Peter Wakker (University of Leiden, The Netherlands)

To accommodate the observed pattern of risk aversion and risk seeking, as well as common violations of expected utility (e.g., the certainty effect), we introduce and characterize a weighting function according to which event has greater impact when it turns impossibility into possibility, or possibility into certainty, than when it merely makes a possibility more or less likely. We show how to compare such weighting functions (of different individuals) with respect to the degree of departure from expected utility, and we present a method for comparing an individual's

weighting functions for risk and for uncertainty. *Econometrica*, November 1995; 63(6): 1255–1280. (Reprinted with permission of *Econometrica*.)



CONSUMPTION-SAVINGS BEHAVIOR

Baby Boomers and Their Parents: How Does Their Economic Well-Being Compare in Middle Age? by John Sabelhaus (Urban Institute) and Joyce Manchester (Congressional Budget Office)

We use survey data to compare the income and consumption of baby boomers in 1989 with that of their parents' generation in the early 1950s when they were the same ages. Various adjustments allow for changes in household composition and living arrangements. We also assess how wealth accumulation by baby boomers on average have accumulated more wealth relative to income at this point in their lives than their parents' generation had at the same stage of life 30 years ago. However, measured consumption has not increased as much as measured income for young adults.



MATHEMATICAL AND STATISTICAL MODELS FOR INSURANCE APPLICATIONS

Equity-Linked Life Insurance: A Model with Stochastic Interest Rates, by J. Aase Nielsen (University of Aarhus, Denmark) and Klaus Sandmann (University of Bonn, Germany)

Assuming constant interest rate, Brennan and Schwartz (1976, 1979) obtained the rational insurance premium on an equity-linked insurance contract through the application of the theory of contingent claims pricing. Further considerations with deterministic interest rate have been discussed in Aase and Persson (1992) and in Persson (1993). Analysing the single premium case, Bacinello and Ortu (1993b) allow for the short-term interest rate to develop in accordance with an Ornstein-Uhlenbeck process. In a paper from 1994, they consider extensions to both the single and the periodic premium model.

This paper presents a model similar to the one by Bacinello and Ortu (1994) for the periodic premium case with stochastic interest rate dynamic. It is shown that the insurance contract includes an Asian-like option contract. Sufficient conditions on the guaranteed amount for the existence of a solution are derived. As no closed-form solution will be obtained, we discuss different numerical approaches and apply Monte Carlo simulations with a variance reduction technique. *Insurance: Mathematics and Economics*, July 1995, 16(3): 225–253. (Reprinted with permission of North-Holland Publishing Company.)

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