

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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