

Applications of Psychology and Economics – Econ 219B
Spring 2005
Wednesday 12-3, 639 Evans
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Homework 5.
Due on March 15 at 12pm

This homework will be a brief (one- to two-pages overall) report on the following paper:

*Justin Sydnor, “The Deductible-Premium Puzzle: Evidence on Risk Aversion from Deductible Choice in the Homeowners Insurance Market”, Berkeley, mimeo, 2005.

Here are some questions you may want to write about:

- Discuss potential rational explanations for Justin’s findings. Can you think of ways to test them?
- Discuss one or more potential behavioral explanations for his findings. This is not an easy question, try to be as precise as you can in outlining the model.
- In which other applications would you expect to find similar results on small-scale risk aversion?

The readings for next week are

*Ariely, Dan, Loewenstein, George, & Prelec, Drazen. Coherent arbitrariness: Stable demand curves without stable preferences. Forthcoming Quarterly Journal of Economics 118 (1) February 2003

<http://web.mit.edu/ariely/www/papers/CA.pdf>

*Hossain, Tanjim and Morgan, John, "[A Test of the Revenue Equivalence Theorem using Field Experiments on eBay](#)", 2003.

*Justin Sydnor, “The Deductible-Premium Puzzle: Evidence on Risk Aversion from Deductible Choice in the Homeowners Insurance Market”, Berkeley, mimeo, 2005.

The homework is due on Tuesday by noon. See you next week!