

CONCEPT: SOLUTIONS TO INFORMATIONAL PROBLEMS

- **Signaling** – An action by the _____ party to reveal private information to the _____ party

<u>Used Car Sale</u> Informed Party: _____ Secret: _____ Signal: _____	<u>Job Application</u> Informed Party: _____ Secret: _____ Signal: _____
--	--

- **Screening** – An action by the _____ party to induce the _____ party to reveal private information

<u>Health Insurance</u> Uninformed Party: _____ Secret: _____ of policyholders Screening: _____ Plan 1: _____ Premium, _____ Deductible Plan 2: _____ Premium, _____ Deductible	<u>Employer-Employee Relationship</u> Uninformed Party: _____ Secret: _____ Screening: _____ _____
---	---

PRACTICE: Jen has a family history of medical problems, which leads her to purchase health insurance. Her friend, Mark, has a healthier family, decides not to buy health insurance. This is an example of:

- a) Moral hazard
- b) Adverse selection
- c) Signaling
- d) Screening

PRACTICE: Safe Times Insurance requires a medical examination for all applicants for medical insurance. Those with significant preexisting conditions are charged more. This is an example of:

- a) Moral hazard
- b) Adverse selection
- c) Signaling
- d) Screening