

Contents

PREFACE AND ACKNOWLEDGMENTS.....	vii
INTRODUCTION	1
NOMENCLATURE	19
 PART A: A GENERAL MODEL OF AVERSION AGAINST SEVERE INDUSTRIAL HAZARDS	 21
I. 'Unlikeliness' of Physical Risks	23
1. The Expected Utility Approach	23
1.1. Basics	24
1.2. Assumptions	25
1.3. Properties	27
1.4. Comparison to 'Bernoulliism'	31
2. Criticism of the Expected Utility Approach	33
2.1. Basic Experimental Evidence	35
2.1.1. The Common Consequence Effect (Allais' Paradox I)	36
2.1.2. The Common Ratio Effect (Allais' Paradox II)	37
2.1.3. The Reflection Effect	39
2.2. From Clinical Common- to Physical Certainty-Effects	40
2.2.1. From Clinical Common- to Financial Certainty- Effects	40
2.2.2. From Financial- to Physical Certainty Effects	45

3.	Vindicating EUA: Is There Really a Need to be Afraid of Russian Roulette?	47
3.1.	Term Life Insurance Market	51
3.1.1.	Supply of Life Insurance	51
3.1.2.	Demand for Life Insurance	54
3.2.	Safety-Improvements	57
3.2.1.	Is Physical Safety a Normal Good?	60
3.2.2.	Is Physical Safety a Drug?	62
3.3.	Smith and Desvousges Re-visited	70
	Appendix 1 to chapter A.I.	75
	Appendix 2 to chapter A.I.	75
	Appendix 3 to chapter A.I.	76
	Appendix 4 to chapter A.I.	76
II.	'Catastrophiness' of Physical Risks	77
1.	Basic Definitions	78
1.1.	A First Definition of 'Catastrophiness'	78
1.2.	A Definition of 'Publicness'	81
1.3.	'Catastrophiness' vs. 'Publicness'	83
2.	A Generalized State-Dependent Utility Framework	85
2.1.	Formalizing Heir-Dependent Bequest Utilities	87
2.2.	Maximizing Heir-Dependent Bequest Utilities	90
2.2.1.	A 'Lerner'-Testament	95
2.2.2.	A 'Constant Bequest Ratio'-Testament ...	96
2.3.	'Catastrophe Aversion'	98
3.	Living in the Presence of Catastrophic Hazards	102
3.1.	Life-Insurance Arrangements	103
3.1.1.	The Supply of Life-Insurance	103
3.1.2.	The Demand for Life-Insurance	103
3.2.	Catastrophe-Reductions	108
3.2.1.	Who Would Pay How Much for Catastrophe- Reductions?	108
3.2.2.	Is Catastrophe-Reduction a Normal Good?	110

3.2.3. Is Catastrophe-Reduction a Drug?	112
Appendix 1 to chapter A.II.	115
Appendix 2 to chapter A.II.	117
III. Likelihood vs. Catastrophiness of Physical Risks	119
IV. A Liability Insurer's Risk Evaluation	124
1. The Basics	125
2. The Liability Insurer's vs. the Testator's Risk Evaluation	128
Appendix 1 to chapter A.IV.	133
Appendix 2 to chapter A.IV.	133
PART B: A MICRO-ECONOMIC ANALYSIS OF MEASURES AGAINST SEVERE INDUSTRIAL HAZARDS	137
I. Risk Evaluation for a 'Reference Model' of Industrial Hazards	139
1. The 'Reference Model'	139
1.1. A General Lexian Framework	140
1.2. A Dichotomous Lexian Model	145
2. Individual Risk Evaluation	149
2.1. The Marginal Rate of Substitution Between θ and ϕ	150
2.2. The Marginal Option Price for Changes of ϕ	159
2.3. The Marginal Option Price for θ	162
2.4. Interdependencies of the Marginal Option Prices	165
3. A Liability Insurer's Risk Evaluation	165
Appendix 1 to chapter B.I.	169
Appendix 2 to chapter B.I.	172

II. Aggregation of Individual Risk/Consumption Preference Patterns	173
1. Arriving at a Society-Wide (Marginal) Option Price under Uncertainty: The General Case	175
2. Arriving at a Society-Wide (Marginal) Option Price under Uncertainty: The Dichotomous Lexian Model	180
III. Aggregate Risk-Reduction Cost	185
IV. Optimal Provision of Physical Safety	192
V. Market Solutions, Failures and Corrections ...	204
1. The 'Free Market'-System	205
2. Ex Ante Safety Regulations	206
3. Strict Liability	209
3.1. Strict Liability with Compulsory Liability-Insurance	217
3.2. Strict Liability with Regulated Compulsory Liability-Insurance	227
3.2.1. Insurance-Premia Ceiling	227
3.2.2. Corrective Insurance Taxes	228
3.2.3. A Risk-Reduction Cost Subsidy	229
3.2.4. Simultaneous Employment of Risk-Reduction Subsidies and Corrective Taxes	230
3.2.5. Corrective Compensation Standards	232
3.2.6. Regulation of Risk-Pooling	236
3.2.7. A Simultaneous Employment of Premium Ceiling, Corrective Taxes/Risk-Reduction Subsidies and Corrective Compensation Standards/Risk-Pooling Regulation	238

3.3.	Strict Liability with Optional Liability-Insurance	240
3.4.	Many Hazardous Facilities	242
3.4.1.	The Insurance Market	243
3.4.2.	The Operators	244
	Appendix 1 to chapter B.V.	246
CONCLUSION		249
REFERENCES		259