

EXAM 6 – CANADA, SPRING 2014

12. (2 points)

a. (0.5 point)

Greater efficiency is an argument in favour of government insurance programs. Explain how the cost savings claimed for such programs may be overstated.

b. (1.5 points)

Identify and briefly describe three reasons, other than efficiency, for government participation in insurance.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 12	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE: B3
SAMPLE ANSWERS	
Part a: 0.5 point	
The claim handling and administration will likely be done by other departments and such costs may be excluded from calculating the “cost savings” involved in the program. For example advertising of the insurance provided by the government may be overlooked if it is bundled into the costs of another department.	
Part b: 1.5 point	
Sample 1: <ul style="list-style-type: none">- Mandatory insurance: to make sure everyone has coverage that is mandatory, like auto insurance- Social benefit: provide benefit to the society as a whole, like healthcare- Filing needs not met by private insurance: when private companies won't insure certain risks, like terrorism	
Sample 2: <ul style="list-style-type: none">- Filling needs unmet by private insurance. For example: private insurers don't have financial capacity to provide terrorism insurance- Compulsory purchase of insurance: in order to fulfil social purpose, residual market is setup to ensure every driver has insurance- Convenience: government can easily pass legislation to raise fund in order so setup a new program	
EXAMINER'S REPORT	
Part a	
Many candidates received no credit on this part.	
Part b	
The answer is one of key learning objectives of the exam so a large majority of students was well prepared and obtained most of points.	