

**EXAM 6 – CANADA, SPRING 2015**

16. (3 points)

A provincial government which currently operates a public automobile insurance program is facing rising pressure from its citizens who are demanding more choice for automobile insurance.

a. (1.5 points)

Provide and briefly explain three reasons that support maintaining the current public automobile insurance system.

b. (1.5 points)

Provide and briefly explain three reasons that justify eliminating the public automobile insurance program and opening the market to private insurers.

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EXAM 6C SPRING 2015 SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 16</b>	
<b>TOTAL POINT VALUE: 3</b>	<b>LEARNING OBJECTIVE: B1 &amp; B3</b>
<b>SAMPLE ANSWERS (BY PART, AS APPLICABLE)</b>	
<b>Part a: 1.5 point</b>	
<ul style="list-style-type: none"><li>• Sample Response #1</li></ul> <ol style="list-style-type: none"><li>1. Compulsory nature of coverage<ol style="list-style-type: none"><li>I. Government may feel obliged to provide coverage</li><li>II. Insurers should have limited profits from a government guaranteed market</li></ol></li><li>2. Convenience<ol style="list-style-type: none"><li>I. Government can appropriate tax funds when in deficit and will already have required systems in place</li></ol></li><li>3. Efficiency<ol style="list-style-type: none"><li>I. Government may be able to operate more efficiently than private insurers.</li></ol></li></ol> <ul style="list-style-type: none"><li>• Sample Response #2</li></ul> <ol style="list-style-type: none"><li>1. Public insurance is more efficient than private insurance because of coordination with other gov. bodies.</li><li>2. Public insurance provide social benefits that count not be attained by having private insurers only.</li><li>3. Because auto insurance is compulsory, the government should operate it to ensure coverage is available for everyone.</li></ol>	
<b>Part b: 1.5 point</b>	
<ul style="list-style-type: none"><li>• Sample Response #1</li></ul> <ol style="list-style-type: none"><li>1. Excessive profits is not sustainable in a market of private insurers due to competitive forces.</li><li>2. Efficiency of public program may be overstated as other government departments are performing tasks that insurers would normally perform.</li><li>3. Private insurers will likely offer more customizable policies in terms of price and coverage. Consumers will have more options and can choose coverage to better meet their needs.</li></ol> <ul style="list-style-type: none"><li>• Sample Response #2</li></ul> <ol style="list-style-type: none"><li>1. The private market is willing to offer coverage so public insurance is not needed.</li><li>2. Public insurers are not more efficient -&gt; they use other gov agencies without factoring in those costs.</li><li>3. Having private insurers in the market will lead to increased competition which will lead to more innovation.</li></ol>	

## EXAM 6C SPRING 2015 SAMPLE ANSWERS AND EXAMINER'S REPORT

### EXAMINER'S REPORT (BY PART, AS APPLICABLE)

Candidates scored very well on this question and most candidates received full credit. Candidates were expected to be able to apply their knowledge of why governments are involved in providing insurance.

Some candidates provided less than the 3 required reasons for either a or b, and therefore were not given full credit for that part.

#### Part a

Most candidates received full credit on this part

The most common errors were:

- Identifying the reason, but not describing it adequately, such as the following:
  - Efficiency: lower costs
  - It can fill a unmet need

#### Part b

Most candidates received full credit on this part.

The most common errors were:

- Identifying the reason, but not describing it adequately, such as the following:
  - Provide growth to the economy
- Providing reasons that would not address the rising pressure from its citizens who are demanding more choice, such as;
  - Government run automobile insurance is subsidized by tax revenues
  - Increased profits for private insurers
- Private insurance would increase availability of coverage