



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Poster title: CPT and insurance uptake

Authors:

Jean Paul Pétraud

PhD candidate, UC Davis, ARE

jppetraud@primal.ucdavis.edu

Steve Boucher, UC Davis, ARE

Michael Carter, UC Davis, ARE

***Poster prepared for presentation at the Agricultural & Applied
Economics Association's 2012 AAEA Annual Meeting, Seattle,
Washington, August 12-14, 2012***

Copyrights 2012 by Pétraud, Boucher and Carter.

Decision weights and insurance uptake

Jean Paul Pétraud with Steve Boucher and Michael Carter

Department of Agricultural and Resource Economics, University of California, Davis

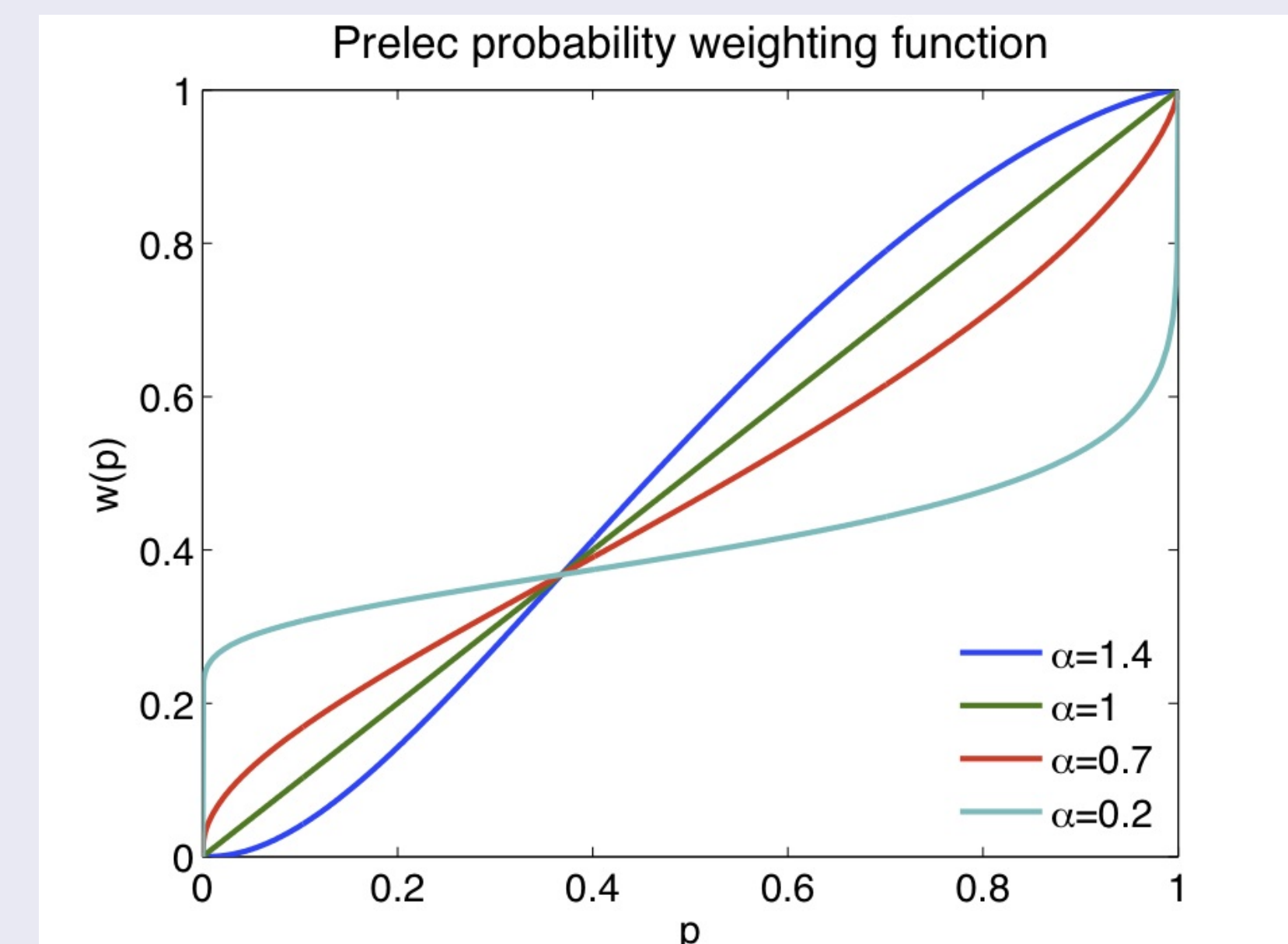
Motivation: Promises of index insurance

- Basis risk
- Trust in the institution
- Maybe it is not about index insurance, but simply insurance
- Experiments about crop insurance decisions and risk attitudes
- Probabilities and decision weights
- Framed and unframed artefactual experiments in Pisco, Peru
- Preliminary results



Perceptions of probabilities

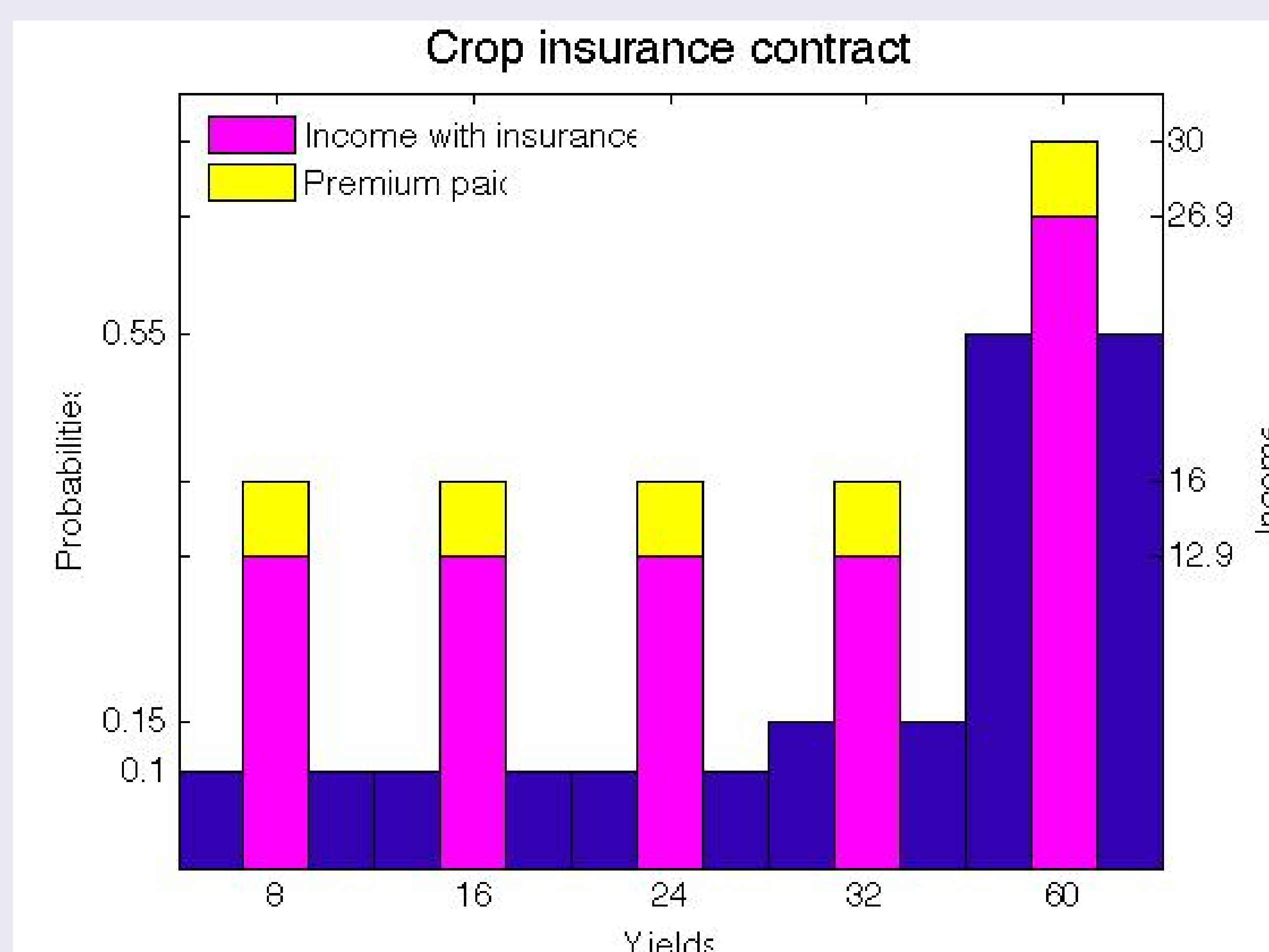
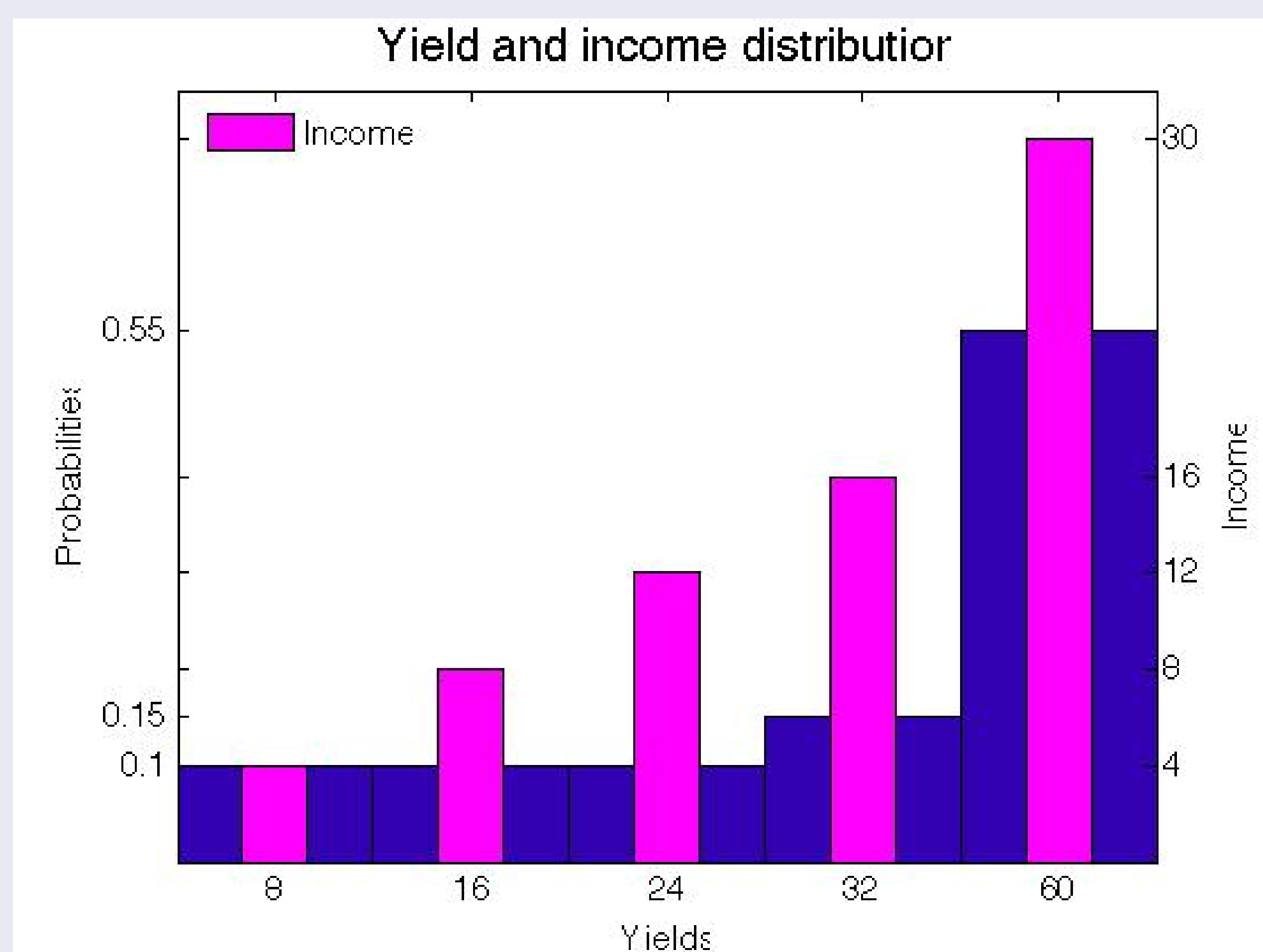
- Overweighting of small probabilities
- Underweighting of larger ones
- Cumulative Prospect Theory (Kahneman and Tversky, 1992)
- A test in Vietnam with lotteries by Tanaka, Camerer and Nguyen (2010)
- Probability weighting function by (Prelec, 1998)
- $w(p) = \exp(-(-\ln(p))^\alpha)$



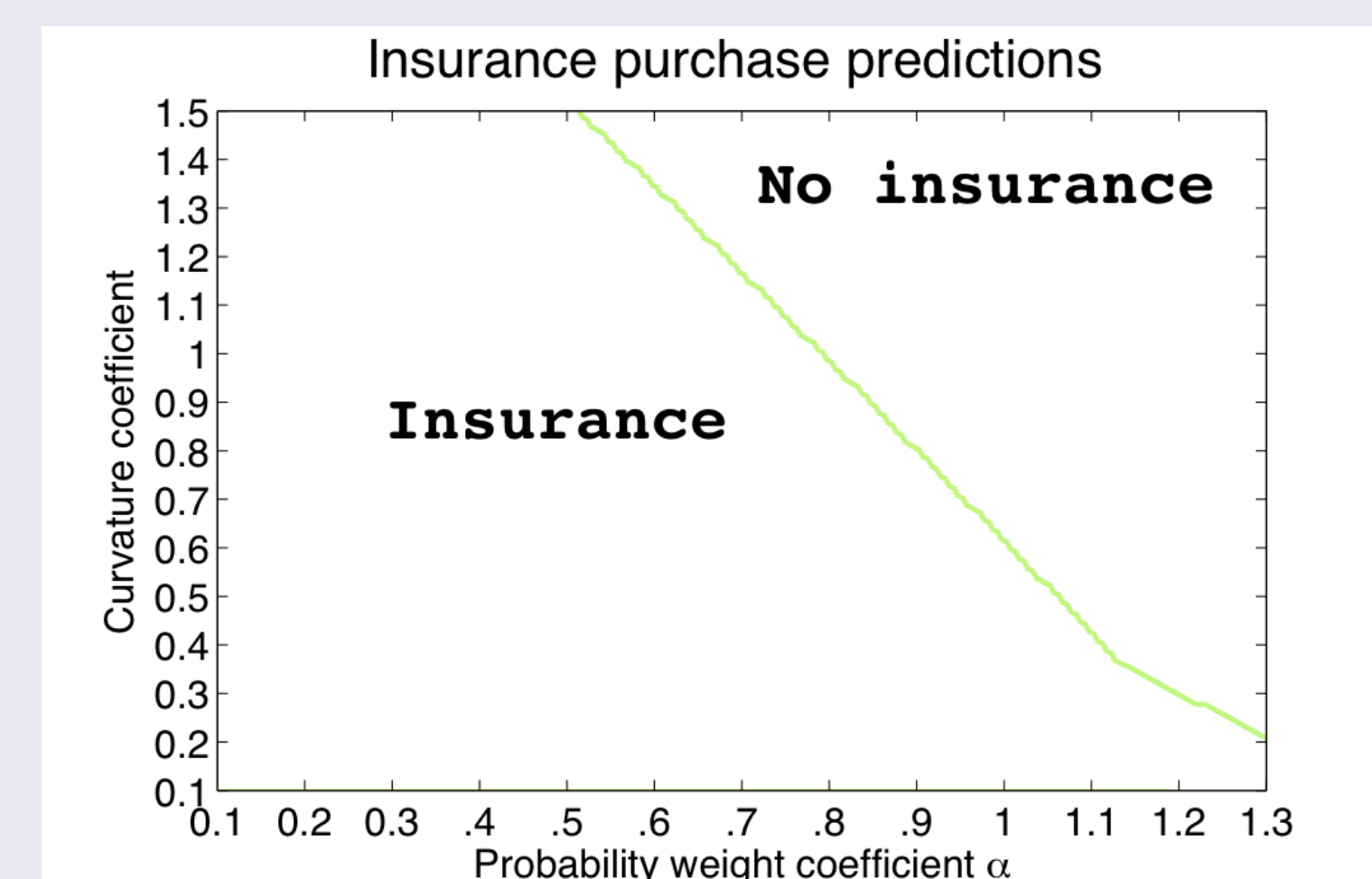
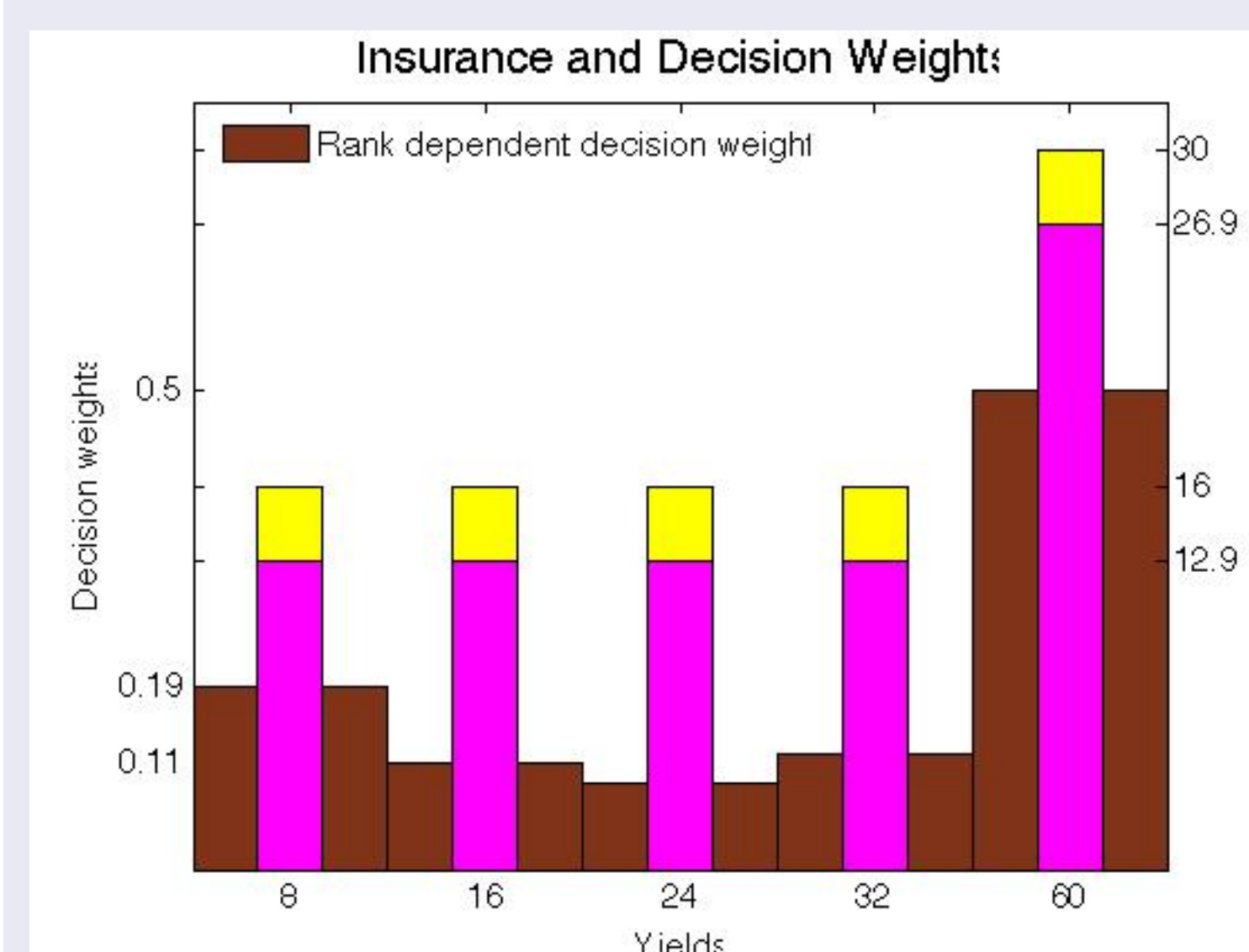
An experiment framed as a crop insurance contract

Presented to 480 participating farmers as the yield distribution of a 5-hectare cotton parcels.

- Insurance premium= Actuarially fair price + 30% loading factor
- Incomes are in thousand Soles
- $E(\text{Income}) = 21,000$ Soles w/o insurance
- $E(\text{Income}) = 20,600$ Soles w/ insurance



Decision weights and insurance purchase



Preliminary results

