

Estimating Welfare Cost of Monopoly Pricing in Insurance Markets: A Simple Model for Lowest Deductible Choice

Minoru Kitahara*

Kuniyoshi Saito[†]

March 30, 2010

Abstract

We develop a simple structural model to quantify the welfare loss under monopoly pricing, and apply our empirical strategy to the auto insurance market in Japan that was virtually monopolized by a single insurer. We find that the welfare loss associated with the inefficient pricing of a deductible premium is around 1,000 yen per capita, maybe significantly large as compared to the premium size of around 7,000 yen.

*JSPS Research Fellow, Graduate School of Social Sciences, Tokyo Metropolitan University, 1-1 Minami-Osawa, Hachioji-shi, Tokyo 192-0397, Japan, and Visiting Research Fellow, ARISH, Nihon University, 12-5 Goban-cho, Chiyoda-ku, Tokyo 102-8251, Japan, E-mail: mkitahar@tmu.ac.jp.

[†]Correspondence Author. Department of Economics, Tezukayama University, 7-1-1 Tezukayama, Nara, 631-8501, Japan, E-mail: ksaito@tezukayama-u.ac.jp.