

Subjective Belief, External Information and Earthquake Insurance Purchase: Evidence from Japanese Post-Quake Data^{*}

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Abstract

We develop a model of insurance purchase based on the optimal expectations framework (Brunnemeier and Parker, 2005) and test its theoretical implications using observed insurance behavior of potential policy holders. Our empirical results generally support the main theoretical predictions derived from the optimal expectations model. Main empirical findings are as follows. First, there are unobserved cutoff values of objective earthquake probability that govern the consumer's insurance purchase decision. Consumers facing objective probability above the cutoff value are significantly more likely to purchase insurance. Second, consumers accessing to the regional disaster hazard information have significantly lower cutoff values. This implies that appropriate dissemination of objective risk information can enhance the consumer's risk mitigation activities.

JEL Classification: D83, G22.

Keywords: Subjective belief, risk perception, earthquake insurance.

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