Discussion on
"Demand Reactions in the Aftermath of Catastrophes and the Need for Behavioral Approaches"

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Discussed by

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Summary

- Assumptions:
  - Businesses are more sophisticated than individuals or households.
  - More sophisticated agents elicit the informational value of an event better than less sophisticated ones.

- Methodology
  - Compare demand reactions in the homeowner insurance market to those in the commercial insurance market in the aftermath of catastrophes.

- Conclusions
  - The demand effect in a state due to a cat in its neighboring states is about +2.9% in the homeowner insurance market. The demand for insurance in the commercial market seems to be insensitive – Behavioral approaches are necessary
  - Temporary increase in insurance demand in the homeowners market is insensitive to the size of the Cat – support for the availability or affect heuristic

Questions and Comments

- premiumsearned v.s. StatePrem?
  - premiumsearned: premiums earned by firm i in state s in year t
  - StatePrem: total premiums earned by firm i in state s in year t less premiumsearned
- Average price of insurance is used in the quantity regression
  - Potential endogeneity problem?
  - Simultaneous regression models?
- Are there other factors contributing to the difference in reactions?
  - Financial capacity
  - Alternative risk management approaches
  - Competing objectives

Questions and Comments

- Distinguish between large and small catastrophes
  - Is it possible that the households actually make rational decisions based on a certain threshold
  - Test the response difference for a truly small loss and a truly large loss?

- Is the observed effect persistent?
  - How about using a subsample of Cat events with non-overlapping periods