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The Looseness Insurance Brings: Moral Hazard

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If, after buying car insurance, you find yourself taking a little less care when choosing where to park, that change may not be simple laziness. Part of the cost of an accident or theft now belongs to the insurer. Economists call this phenomenon, where behavior loosens or grows bolder after risk has been passed to someone else, ‘moral hazard (Moral Hazard).’ Put simply, moral hazard means ‘the phenomenon in which, after one party takes on a risk, the other party changes its behavior in a way that increases the size of that risk.’ It is a problem of hidden action (hidden action) that emerges af