

In Massachusetts car insurance is required of all drivers by law. However, there are concerns that the insurance market is not competitive, since it is very costly for insurance firms to vet policy holders (i.e. drivers). (Vet means to tell whether a driver is high or low risk.) In response, the state is mulling whether to enact a controversial law that makes it a crime for policy holders to mislead insurers. The law will also force all drivers to install a monitoring device in their cars that reports how fast the car is moving to the newly established Bureau of Road Rage.

The state has hired you to review the policy. Use what you know about competition and information asymmetry to discuss how this policy will affect the quality and price of insurance. You are also encouraged to discuss the tradeoffs between efficient markets and privacy. Your answer should include definitions of competition and market failures, and discussion of the market failures caused by information asymmetry (hint: adverse selection and moral hazard).

Note that there is no one right answer to this question. You are free to argue any case. Your discussion will be evaluated on your use of the economic concepts we have developed thus far.

Other guidelines:

1. Your discussion must be at least 500 words.
 2. Your discussion must have perfect spelling, grammar and syntax.
 3. Write for a general audience - if you use a technical term you must define it.
 4. You must cite sources using the Chicago citation format.
 5. Your submission must be single spaced and written in 10pt Times New Roman Font.
- you will be given a writing prompt and asked to write a "policy paper" of 500 words