Quiz 4

STAT 479

September 28, 2010

1. Losses prior to any deductible for a health insurance policy are distributed as a Pareto distribution with $\theta = 1000$ and $\alpha = 5$. Losses are subject to a franchise deductible of d.

   The expected value per payment after the deductible is 820.

   Calculate d.

2. Losses follow an exponential distribution with a mean of 1000. The insurance company wants to implement an ordinary deductible that will result in a loss elimination ratio of 0.5.

   Calculate the ordinary deductible to be implemented.