"Identifying Moral Hazard in Car Insurance Contracts"

This paper capitalizes on a unique situation in Israel where car insurance coverage is often distributed as a benefit by employers. Employer-determined coverage creates variation in accident costs that are not a function of individual choice. Using instrumental variable analysis on data provided by an insurance firm in Israel (2001-2008), we find that a 100$ discount in accident costs increases the probability of an accident by 3.4-3.7 percentage points. These results can be interpreted as the effect of moral hazard on car accidents.