

Limitations of the Study and Scope for Further Research

This study is an attempt to analyze the market for multiple crop insurance products and to investigate the potential for adverse selection. We apply the techniques developed in the health and automobile insurance literature to the crop insurance market. The results of our study provide new insights into the manner in which farmers choose alternative insurance contracts. The study, however, is limited by the lack of data for those farmers who did not buy crop insurance. Including non-participants in future studies would greatly enhance our understanding of the crop insurance market.

This study is limited to corn and soybeans in Iowa. An extension of the study to include other crops and States would be useful. Furthermore, the data used in this study represent only a single year, 1997, which is not a representative crop year by any means. An extension of this analysis to include more years would provide a more robust set of results.

We estimated yield and revenue distributions using only 10 years of data, which may not represent the full range of loss possibilities. The availability of more data, both at the individual farm and county level, would greatly improve the robustness of the results. Lack of data on farmers' wealth and other demo-

graphic characteristics, including the education levels of farmers and off-farm income, limited our estimation of the risk-aversion behavior of farmers.

A major issue which this study could not accurately address is the impact of Federal premium subsidies on the choice of alternative insurance contracts. It is possible that the level of Federal subsidy would distort the efficient functioning of the crop insurance market. On the other hand, given the nature of risks in agricultural production, it is possible to argue that the crop insurance market may not function efficiently without a Federal subsidy. An empirical investigation of this issue would be useful. A study to analyze the demand for multiple crop insurance products focusing on design, delivery, and premium discounts would be useful and would complement the results of this study.

Another critical issue which we did not directly address in this report is the impact of multiple insurance products on the efficiency of the crop insurance market. As in the case of automobile and health insurance markets, the availability of a large number of insurance products offers a wider range of choices for producers. That, in turn, allows producers to purchase insurance contracts that match their risk profiles more appropriately, which might improve program efficiency. An analysis of market efficiency over time can provide insights into the benefits from making available a large number of insurance products in the market.