

Name:

Student ID:

Spot an Unusual Moral Hazard!

Think of a real-life situation (not car insurance or health insurance) where someone becomes less careful or changes their behavior because they are protected from the full consequences of their actions — and the person responsible for monitoring them *cannot easily observe* that behavior.

Write 1–2 sentences each describing:

- The situation,
- What hidden action the person takes,
- Why this is moral hazard.

Be creative!

Example (don't use this one):

A group of new friends agrees in advance that each person will prepare a homemade dish for a big potluck. Once that commitment is made, one friend realizes no one can actually observe how much effort they put into cooking. They end up bringing quick store-bought cookies instead of making a real dish.

Hidden action: the effort they exert *after* agreeing to contribute is unobservable.

Why it's moral hazard: once the friend is effectively “insured” by the group agreement — they will receive a full meal regardless, so their incentive to put in real cooking effort weakens. The unobservability of effort leads them to slack off.

Now write your own example below: