

The SURE Program: An Empirical Investigation of Moral Hazard and Adverse Selection Behavior

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The Supplemental Revenue Assistance Payments (SURE) program, introduced in the 2008 Farm Bill, provides disaster aid payments to producers in counties eligible for disaster payments and individual producers with crop production losses that exceed 50% of their expected yields. We show that the program's "rules of the game" create moral hazard and adverse selection incentives. Then, we empirically analyze possible moral hazard and adverse selection behavior in response to the SURE program by corn, soybean, and wheat producers. Results suggest that recent increases in crop insurance participation may be due to increased moral hazard and adverse selection incentives.

KEYWORDS: 2008 Farm Bill, adverse selection, crop insurance, moral hazard, SURE

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