Micro health insurance can shield the poor from the financial hardship of health expenditures but faces low demand. This thesis analyzes why insurance take-up is not higher. The author first shows that prospect theory and adverse selection cannot explain low take-up. She then uses game theory to provide an alternative explanation, namely that microfinance clients can free-ride on financial support from their credit group when they face health expenditures. A laboratory experiment with microfinance clients in Tanzania provides substantial evidence of this theory, and shows that an insurance model in which the group needs to enroll collectively increases demand. These findings suggest that policy-makers can improve participation in microinsurance programs and enhance welfare by targeting groups rather than individuals.

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