

Why isn't there an Insurance Market for Student Loans?

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[Yesterday](#) I argued that student loans should be dischargeable in bankruptcy. Given that they are not dischargeable, an economist would expect to see insurance available, insurance that would pay the loan if students were incapable of paying it themselves.

Since we don't see the insurance, I assume the reason has to do with asymmetrical information and problems creating a contract with the proper incentives. The insurance company can't know about the character of the student and how much effort they will make to get a job that allows repayment of the student loan, and just what would a contract that doesn't provide a moral hazard problem look like?

Absent insurance, we would expect students to self insure. How could they do that? One way would be to major in degrees that are more likely lead to employment. Higher grades would also be a signal to that all-important first employer.