A note on optimal insurance under ambiguity

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This paper investigates the effect of ambiguity on the market for insurance when preferences are ordered by comparison of Choquet expected utilities (see for example (Gilboa (1987), Schmeidler (1989), and Gilboa and Schmeidler (1989))). We show that Arrow's theorem on optimal insurance easily extends to the ambiguity case when the Choquet integrals are with respect to a common capacity. A discussion of conditions that justify the assumption of a common capacity for the insurer and insureds is also presented.