Abstract
This article identifies the conditions under which potentially insolvent injurers over-invest in precaution. We show that this may happen only with respect to precautionary measures that reduce the probability of the accident. No such result occurs if precaution only reduces the magnitude of the harm. Contrary to the literature, we find that over-precaution may also occur when precaution is non-monetary. The reason being is that over-precaution can not only be due to the implicit precaution-subsidy effect (the fact that care-taking reduces the injurer's exposure to liability when precaution is monetary) but also to a substitution effect between precaution that reduces the probability of accidents and precaution that reduces the magnitude of the harm. Finally, we find that when the injurer's wealth is sufficiently low, precautions may actually be lower when they are monetary than when they are non-monetary, despite the implicit precaution subsidy in the former case.