

## **Screening Definition**

The definition of screening refers to the actions of an uninformed party to push the informed party to reveal private information. Often there are inefficiencies in markets that are caused by asymmetric information. Screening helps the market become more efficient by making information available to everyone involved in a transaction

## **Screening Examples**

There are many screening examples. Let's consider an auto insurance company as a screening example.

Take, for instance, a company that deals in auto insurance. The company aims to charge cheap premium deals to those drivers who have a lower risk of getting into an accident and charge higher premiums to those drivers who have a higher risk of getting into an accident. How does the company measure the risk of a person getting into an accident?

Instead of taking the driver's word for it, the insurance company conducts extensive research on the driver's background and the amount and types of accidents they've had in the past. In this way, it determines the risk that the driver has of getting into an accident. The process of doing the background check for the driver and estimating a risk associated with them is known as screening.

The screening process then enables the company to differentiate between drivers and offer insurance packages accordingly. Screening allows the company to increase its profit and reduce costs.

If the driver is risky, in the event of an accident, they may already have paid the insurance company enough to cover the expense. However, if it wasn't for screening, and the insurance company had no idea of the risk associated with the driver, it would have resulted in a much higher cost for the company.

## **Screening Techniques**

Some of the most common screening techniques include historical records, health records, aptitude tests, college background, and grade point average.

- **Historical record.** When assessing a client's degree of risk and the likelihood that they may engage in dangerous conduct in the future, insurers consider both the client's current behavior and the client's history of activity. For instance, if a customer has a record of being involved in a number of automobile accidents in the past, there is a high probability that the client may be in an accident in the future.
- **Health record.** Health records are used as a screening technique by health insurance providers. When considering whether or not to provide health insurance coverage to a customer, the insurer will be interested in learning about the customer's current health status and the types of diseases the customer suffers from.
- **Aptitude tests.** Aptitudes tests are one of the most common techniques employers use to screen potential candidates. Employers often resort to aptitude tests as one of the most effective screening tools to choose qualified applicants from a larger group of people looking for work.

- **College background.** When college graduates apply for jobs with little experience, companies will use their college background as a screening technique. The college background will help companies determine whether candidates have acquired the skills required for the job throughout their education.
- **Grade point average (GPA).** The grade point average is a common screening technique used not only by employers but also by colleges. Students who have had varying levels of success during their time in school are likely to have lower averages than students who have been among the school's top scorers and who have maintained a high level of academic achievement. This reveals information about the student's likelihood to maintain high performance in the company or the college they apply to.

### **Screening vs. Signaling**

The main difference between screening vs. signaling is that signaling occurs when an informed party reveals private information. On the other hand, screening occurs when an uninformed party induces the informed party to reveal information.

[Signaling](#) is very similar to screening, with the key difference being that the agent with all of the information decides to act first to single themselves out as a good agent. That is to say, when signaling occurs, the information is revealed without the need to have another party induce the informed party to disclose information.

The labor market is one of the most common examples of signaling. Individuals fill most occupations in the labor market that require some qualifications with at least some level of postsecondary education.

However, except for professions in the sciences and the medical area, the credentials these individuals possess are often irrelevant to the job they are doing; an example of this would be a financial analyst with a degree in philosophy.

That's because a financial analyst can get the necessary capacity for analysis and logical thinking despite receiving a degree in philosophy. The degree is a signaling technique that the individual uses to reveal information on the type of skills they have.

Obtaining a degree is a method of signaling; it demonstrates that you possess particular qualities, whether innate or developed through experience that has enabled you to attain that level of education and then complete it.

Similar to screening, signaling reduces [asymmetric information](#). That's because the party is revealing the information; therefore, none of the parties have more information than the other. This enables a much more efficient allocation of resources.

### **Advantages of Screening**

One of the main advantages of screening is that it reduces [asymmetric information](#) in the markets, leading to efficient resource allocation.

**What is an example of screening?**

An insurance company checking the number of accidents an individual has had in the past is an example of screening.

**What is meant by screening in economics?**

**Screening in economics** is the practice whereby an uninformed party takes action to cause the informed party to reveal information.

**What are the cons of screening?**

The cons of screening include incorrect results during the screening process.

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