

## Abstract

People participate in risky activities on daily basis; e.g., driving, investing. Safety regulation aims at improving safety of those who engage in risky activities. This article studies the problem of adverse selection in the context of safety regulation. We show that disregarding adverse selection has significant implications for not just quantitative but also qualitative empirical conclusions. We also show a novel way of detecting adverse selection. We use unique and large dataset provided by iRacing, an online racing simulator.