## Review Questions

4.

Why might it be difficult for a buyer and seller to agree on a price when imperfect information exists?

5.

What do economists (and used-car dealers) mean by a “lemon”?

6.

What are some ways a seller of goods might reassure a possible buyer who is faced with imperfect information?

7.

What are some ways a seller of labor (that is, someone looking for a job) might reassure a possible employer who is faced with imperfect information?

8.

What are some ways that someone looking for a loan might reassure a bank that is faced with imperfect information about whether the borrower will repay the loan?

9.

What is an insurance premium?

10.

In an insurance system, would you expect each person to receive in benefits pretty much what they pay in premiums or is it just that the average benefits paid will equal the average premiums paid?

11.

What is an actuarially fair insurance policy?

12.

What is the problem of moral hazard?

13.

How can moral hazard lead to more costly insurance premiums than one was expected?

14.

Define deductibles, copayments, and coinsurance.

15.

How can deductibles, copayments, and coinsurance reduce moral hazard?

16.

What is the key difference between a fee-for-service healthcare system and a system based on health maintenance organizations?

17.

How might adverse selection make it difficult for an insurance market to operate?

18.

What are some of the metrics economists use to measure health outcomes?