Final Review E339

Health Insurance

An individual with a demand function for podiatric care of the form P = 30-Q faces a supply curve of P=$10. Podiatrists are medical specialists of the foot, ankle and lower leg.

a) What are the quantity demanded and the price paid by the individual?

If the individual were to buy a health insurance policy with 15% coinsurance

b) What would be the quantity demanded?

c) What would be the price received by the podiatrist?

d) What would be the price paid by the individual?

e) Calculate the deadweight loss.

Labor market

Consider the market demand for labor Ld and the supply of labor Ls, where W is the market wage.

Demand : Ld =1,000-20W

Supply : Ls =-200+40W

a. What is the equilibrium market wage? What is the equilibrium employment level?

b. The government thinks about establishing a minimum wage of $19. Discuss what would happen in the labor market without employer provided insurance. Does employment go up or down?

Uncertainty and Health Insurance

Bob earns $70,800. In the next year he faces a 25% chance of having an accident with his speed boat that will cost him 50,000$. There are two insurance companies in the market. The first insurance company offers a full-insurance package for only: $16,500, the second insurance company offers a partial-insurance package with a 30% coinsurance rate for $11,000. Bob values his wealth with the following utility function:

$$U(Wealth) = Wealth\hat{\ }(1/2).$$

a. Explain the differences of the effects of Moral Hazard due to the 2 types of insurance contracts in the market. How do the two insurances affect Bob differently? What is the effect on the insurance markets if Bob buys insurance? (Use a graph to illustrate your arguments about Moral Hazard. You need no calculations to answer this question)

b. Calculate the actuarially fair premium for the full insurance contract. What is the risk premium and what is Bob's total willingness to pay for full insurance? Draw a detailed graph, and explain all terms in detail.

d. What insurance if any should Bob buy?

c. What is adverse selection and how can it affect insurance markets?

Demand supply

1. Refer to Figure 1, which shows a market for taxi medallions. If the number of taxi licenses is reduced from Q2 to Q1, the producer surplus:
   A) increases by area BCFG. B) increases by (area BCFG - area GHI).
   C) decreases by (area CDGH + area GHI). D) decreases by area GHI.

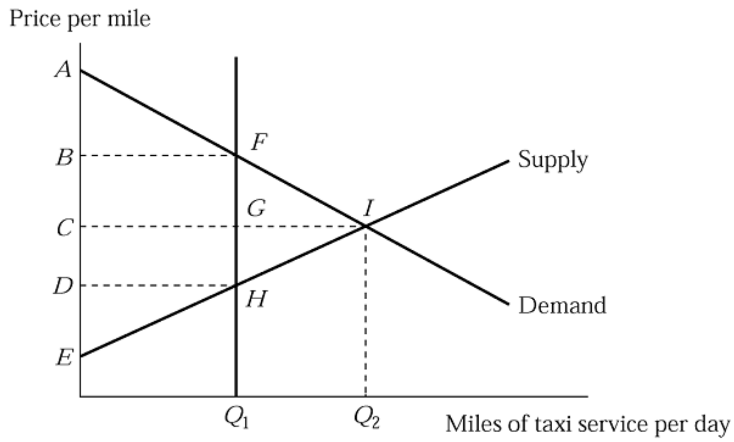

Figure 1:

2. Assume demand $p = 10 - 2.3q$ and supply is $p = 1 + 3q$. Calculate the equilibrium point. Then calculate consumer and producer surplus.

3. Introduce a quota $Q_1 = 1$. What is the new market price? What is the new market quantity? Calculate the new consumer surplus.

4. Introduce a different quota $Q_1 = \frac{10}{50}$. What is the new market price? What is the new market quantity? Calculate the new consumer surplus. Calculate the new producer surplus.

Indifference curves

Explain why indifference curves can never cross.

Reading Assignment

Please read reading assignment 1 and 2 posted on the class website. Here are the links for your convenience. Then answer the questions that follow.

- http://pages.towson.edu/jjung/jdocs/Health/2008NYT_BruceHardy.pdf
- http://pages.towson.edu/jjung/jdocs/Health/Myths-about-the-Uninsured-Fact-Sheet.pdf

a) You are Dr. Rawlins, Chairman of NICE. Write 2 paragraphs trying to convince the U.S. congress to adopt a cost control system like NICE in the U.S.

b) You are Mr. Hardy. Write 2 paragraphs and try to convince the U.S. congress to not adopt a system like NICE in the U.S.

c) Please comment on the following statements:

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  - Most of the uninsured do not have health insurance because they are not working and so don't have access to health benefits through an employer.
  - The uninsured often receive health services for free or at reduced charge.

- The uninsured can get the care they need when they really need it and are able to avoid serious health problems.
- The health care the uninsured receive, but do not pay for, results in higher insurance premiums.