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Professor Tal Gross

Introduction to Health Economics

Homework Assignment Due 3/6/17

1.

Gruber means that millions of Americans are not using health insurance the way they should be. Some are underpaying by taking advantage of the benefits that they can qualify for, while others are underusing by not visiting their doctors as often as they should to avoid bills. This can be a bad thing because it leads to overconsumption of healthcare in the United States. Millions of dollars are being lost every year that could go to other U.S. needs. In addition, millions are not receiving adequate care.

2.

A partial reasoning that Gruber mentions for why insurance is too generous is that employer's health insurance expenditures are tax subsidized. Basically, while payment in the form of salaries are taxed, payments in the form of health insurance are not. With such a large elasticity of spending, in respect to the tax subsidy, the disparity can arguably lead to the overconsumption of health care insurance and an upswing in health care spending amongst firms that offer insurance.

One of the possible reasons for why insurance is too generous, listed in Gruber's work, is that the costs of moral hazard is being overstated. He states that the additional medical care being used may be due to patients' increased access to care. This consideration is especially important when discussing increased access to more expensive procedures/treatments, and not every day procedures like doctors' visits.

Another reasoning that Gruber discusses for why insurance is too generous is the deterrent that minimum standards regulations in the insurance market create for individuals that who are forced to pay for a package that they do not value. However, there is not much evidence to back this argument when comparing coverage in states that mandate particular benefits to states that don't have mandates or states that offer mandate free packages.