Melanie Baez

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Professor Tal Gross

Introduction to Health Economics

Homework Assignment Due 3/6/17

Skim the 2008 working paper by Jon Gruber titled “Covering the Uninsured in the us.” Focus on the section labeled “Overinsurance and Limited Choice,” which begins on page 16.

1. Explain what Gruber means when he says that insurance is too generous in the United States. How can that be a bad thing?

2. List 3 specific economic reasons he gives for why insurance is too generous. Briefly explain each reason in 2–3 sentences.

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.

insurance, while those who continue to purchase insurance will have a generous policy.

In fact, however, the regulatory requirements on insurance policies in the U.S. are fairly

modest. Some benefits, such as coverage for the expenses of pregnancy and continuation

coverage for those who lose insurance, are mandated at the federal level. Many others are

mandated at the state level: for example, most states mandate coverage of mammography and

substance abuse treatment, while some states have mandates for benefits such as invitro

fertilization and chemotherapy. States also in some cases impose premium taxes on insurance,

which would explain underinsurance but not overinsurance.

Existing evidence suggests, however, that these state mandated benefits are not a major

cause of uninsurance - or overinsurance. Indeed, Gruber (1994) finds that virtually all insurance

plans voluntarily cover mandated benefits even in states where they are not mandated. As a

result, this article finds that when states add these mandates, it does not affect the rate of health

insurance coverage in the state. Moreover, a number of states have passed “barebones”

insurance laws which allow insurers to offer “mandate-free” or “mandate-lite” benefits packages

to certain groups of insured (e.g. small firms), yet there has not been much demand for such

policies. Thus, overinsurance appears to be the result of choice and not state regulation.