Review Notes – Health Insurance

• The demand for health insurance
  ▪ definitions (quite a few, know them all)
  ▪ the decision to buy insurance
    ▪ what is contingent consumption?
    ▪ budget constraint for contingent consumption?
    ▪ utility max. model
  ▪ a theory explaining demand for insurance
    ▪ how does the probability of illness matter?
    ▪ what is expected value? expected utility?
    ▪ what is the expected value hypothesis?
    ▪ what is the expected utility hypothesis?
      ▪ know how to define, both in words and graphically, risk neutral, risk averse, and risk loving individuals.
      ▪ do risk averse individuals always buy insurance?
      ▪ what are the predictions from the model?
  ▪ moral hazard
    ▪ what's that?
    ▪ impact of moral hazard on demand for insurance?
    ▪ how can this problem be reduced/eliminated?
  ▪ adverse selection
    ▪ what's that?
    ▪ what is the impact of adverse selection in insurance markets?
    ▪ how can this problem be reduced/eliminated?
  ▪ What is the impact of differential health insurance?
  ▪ what is the impact of tax advantages on the demand for health insurance?

• The market for health insurance
  ▪ why do we care (i.e., public policy issues)?
  ▪ demand side performance (allocative efficiency)
    ▪ benefit/premium ratios
      ▪ what are those?
      ▪ how do they help us understand the level of competition/efficiency in the market?
      ▪ empirical evidence
    ▪ community rating (what's that? impact of community rating on efficiency?)
    ▪ conclusions?
  ▪ supply side performance (technological efficiency)
    ▪ economies of scale?
    ▪ internal (firm) technological efficiency?
    ▪ conclusions?
• The evolution of market competition in health care industry
  ▪ why did competition evolve now?
    ▪ impetus came from three sources
      • federal government (why?)
      • private sector (why?)
      • application of anti-trust laws to health care
  ▪ which conditions are crucial to increased competition at this time?
  ▪ what is the nature of the increased competition?
    ▪ increased competition among traditional providers (the role of advertising).
    ▪ non-traditional providers (managed care = hmos and ppos)
    ▪ focus on HMOs (what are those?)
      • what are the advantages of HMOs?
      • disadvantages (be sure to know what factors might mitigate these disadvantages).
      • empirical evidence/conclusions?