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 sectory (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?