

Discussion Class Assignment

Summary Due September 23; Discussion in class September 23

The assignment is to read the paper: The Value of Life and the Rise in Health Spending. You will need to turn in a 300 word summary of the article. The summary should address the following questions. You should also be prepared to discuss these questions on the discussion board. Recall, that you must participate in the discussion board – a minimum of two posts on the questions below. Note that this paper is a technical (i.e., mathematical) economics article. I do not expect you to understand the math but I do expect that you can get the essence of the arguments that the authors make in the paper.

1. What is the basic premise of the paper? That is, the paper is explaining theoretically and empirically an observed empirical fact in US health care. What is that fact? Please be specific. Please refer to Figures/Tables where helpful.
2. What is the authors' explanation for the historical relationship discussed in 1 above? Please be specific.
3. On page 48 (first paragraph), the authors identify two economic principles that are at the core of their economic model. What are these two principles? How do they counteract each other in explaining the basic premise of the model/paper? Be prepared to briefly discuss these principles.
4. Figure III uses the model and actual data to estimate the elasticity of health status with respect to health inputs for different ages. Briefly explain what that elasticity measures? Why does it make sense for this elasticity to be highest at very young ages and then at middle ages? Please give specific reasons for your answer.
5. Briefly describe what Table I contains and how the data contained in Table 1 relates to the premise of the paper. Figure V contains simulations of the authors' theoretical model for different assumptions regarding the model. The crucial difference here is the parameter γ , which in the simulations varies between 1.01 and 2.5. What is γ as it relates to utility? What economic "law" requires γ to be greater than 1? Notice in Figure V, as γ increases in size

then a positive relationship results between time and health share. Briefly discuss this result and why it is important to our public policy regarding health care spending over time.