

Examination Guidelines Take home-exam in HECON4210.

Spring 2021.

September 9, 2021

Since this is an open book home-exam, an important part of the assessment is to evaluate the students' ability to answer the questions by applying and discussing the material using their *own* words. Students who are well prepared, and understands the material, should be able to write good answers to most of the questions without consulting the lecture notes or other course material. In questions asking for definitions, students should not simply state a definition, but be able to define the concepts using the models they learned in class. When copying figures and formulas from sources it is important that the students explain the figures and equations in detail to show that they understand the models.

The exam should be answered without help from others. When students copy formulas or graphs from references, they need to refer to author, page/slide number and equation/figure number. The students did only need to use inline references (author and year of publication/lecture or slide number), if only using sources from the course material. If they use references that are not included in the curriculum, they needed to add a reference list that includes the author names, year of publication, and name of journal of the references that are not in the curriculum. They could only use the course material and published articles in peer-reviewed journals as references. The students were told in general to *not* use direct quotations. The assignment should be in their own words. If the students found it essential to use direct quotations, they needed to use quotation marks, and refer directly to page and paragraph number.

Answers that are simply reproductions of the course material, without any interpretation or explanation, receive zero points. Answers that use direct quotations without proper referencing receive zero points.

Please, see below a non-exhaustive list of points that should be addressed in good answers.

Exercise 1: Demand for health (30%)

a

- Describe how the depreciation rate affects the marginal cost of health in the Grossman model
- Describe how the optimal H^* drops when the MCH shifts upward.
- Describe how the demand for medical care change as the higher depreciation rate increases the amount of medical care M required to maintain a given level of health increases
- A graph showing the effects of higher δ should include an explanation of slopes, and which curves shifts because of the change in depreciation

b

- Describe how health enters the utility function in the pure investment and pure consumption model.
- An answer that relates the two models to the two terms of the left-hand side of the first order condition should explain verbally the economic interpretation of each term.

c

- Explain the effects of a wage change in the Grossman model
- Very good answers recognize that the policy of paid sick leave imply that the appropriate model is the pure consumption model
- A graph showing the effects of higher wage should include an explanation of slopes, and which curves shifts because of the change in wage

Exercise 2: Selection (35%)

a

- Good answers should not merely state the definition, but define willingness to pay within a model learned in class
- All formulas and/or graphs should be explained in detail such that the student shows a clear understanding of the model

b

- The welfare implications should be illustrated/explained within a model learned in class
- It is important that answers who illustrate the welfare implications graphically should explain the slopes and the positioning of all the curves

c

- Characterize DWL of full insurance in one or more of the cases covered in class (loading costs, advantageous selection)
- In the case of advantageous selection, good answers explain in detail why it is necessary to have positive administration costs for their to be an efficiency loss.

d

- Explain the "positive correlation" test for selection
- Good answers should discuss alternative explanations for this finding, such as moral hazard.

Exercise 3: Moral hazard (30%)

a

- Show how the first order conditions imply that the health state and disposable income will be the same in all states of the world.
- Discuss how this corresponds to the socially optimal outcome with no deadweight loss.

b

- Describe the first order conditions when s is unobserved
- Describe the resulting equilibrium $M^* > M^{*o}$
- Describe the resulting deadweight loss

c

- Describe the insurance-efficiency tradeoff
- Discuss how the price elasticity of demand may differ across treatments
- Discuss the role of primary care physicians as gatekeepers to specialist health care in controlling health care expenditures

d

- Discuss experimental and non-experimental approaches to identify moral hazard in health insurance
- Very good answers discuss whether health insurance experiments identify income or substitution (i.e. moral hazard) effects