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Demand for Health Care

Comprehension Questions

Indicate whether the statement is true or false, and justify your answer. Be sure to cite evidence from the chapter and state any additional assumptions you may need.

1. Unlike with most types of goods, deriving a demand curve for health care is quite simple because people rarely skimp on health care.

   FALSE. Just as with any good, deriving a demand curve for health care is difficult because it requires information about how the same population would react to different prices. This requires either parallel universes or, more realistically, a randomized experiment.

2. The RAND study was especially useful for measuring price elasticities because it randomly assigned insurance plans to participants (as opposed to letting them choose).

   TRUE. Randomization ensured that the groups facing different prices were statistically equivalent. That meant that any difference in demand between groups was attributable to price, not some other characteristic.

3. The Oregon Medicaid Experiment is not truly "randomized" because lottery winners did not all end up with insurance, and some lottery losers did end up with insurance.

   FALSE. Although the Oregon Medicaid Experiment was not exactly a con-

trolled experiment, it did use randomization to assign participants to different groups, and one group (the "lottery winners") were much more likely to obtain health insurance.

4. The RAND HIE found that people assigned to the free health plan had the same rate of hospitalization as people assigned to the cost-sharing plans.

   FALSE. The people assigned to the free plan visited the hospital more frequently and were more likely to visit the ER.

5. In the RAND HIE, the arc elasticity of demand for inpatient care was larger (in absolute value) than the arc elasticity of demand for outpatient care.

   FALSE. That result would imply that people are more price sensitive when it comes to more urgent health care. Instead, the arc elasticity of demand for impatient care was smaller in absolute value.

6. Unlike the usual measure of elasticity, an arc elasticity can be calculated from just one price-quantity data point.

   FALSE. Any measure of elasticity requires data from at least two price levels in order to measure responsiveness to price.

7. Both the RAND and Oregon studies find that demand for health care is approximately unit elastic, that is, $\epsilon \approx -1$.

   FALSE. The RAND HIE finds that demand for health care is very inelastic, with arc elasticities around 0.2.

8. In the RAND HIE, being assigned more generous insurance did not generally improve participants' health outcomes, except among certain subgroups.

   TRUE. The RAND HIE finds that generous insurance only provided small health improvements to healthy people. However, high-risk participants (like those who were smokers or had high blood pressure) did receive substantial health benefits from more generous insurance.

9. To date, no major health insurance experiment has studied the impact of *un*insurance, just different levels of insurance.

   FALSE. The Oregon Medicaid Experiment studied the impact of uninsurance.

10. Results from the Oregon Medicaid Experiment suggest that having health insurance has a positive impact on health status.

TRUE. Lottery winners in the Oregon Medicaid Experiment were not more likely to survive than lottery losers, but they had better self-reported physical health and mental health.