

Name _____

Final Exam

1. (12 points) We spend more in the U.S. on health care per person than any other country, yet we do not have better health than countries that spend less. Give four explanations for this fact.

2. (15 points)

(a) Describe three negative externalities of smoking.

(b) Give one reason why the government should impose a cigarette tax that is higher than the external costs per pack.

(c) Give one reason why the government should impose a tax that is exactly equal to the external costs.

(d) Show graphically the effect of a tax on cigarettes consumption.

3. (15 points) If you tell your pediatrician that your insurance will not cover your child's vaccinations at this visit, she will charge a lower price for the vaccinations than if you had insurance.

(a) What do economists call this practice?

(b) Using a graph, describe the effects of this practice on the pediatrician's profits, the insured patient's consumer surplus, and the uninsured patient's consumer surplus.

4. (9 points) Assume that the city council wanted to remove a few speed bumps in the downtown area because they slowed traffic considerably exacerbating congestion. By removing them, commute times would be shorter. However, the cost is that the higher speeds increase the probability of a fatal accident. The trade-off is that we gain 100,000 hours per life lost.

(a) If the average wage is \$12.33, what does this trade-off imply about the value of statistical life?

(b) What approach is this to the calculation of VSL?

5. (12 points) Over a 5 year span, annual cervical cancer screenings involve some costs: the cost of the screening (5 screenings at \$50 per screening in 2000\$) and the time lost in receiving screenings (5 half-days at \$100 per half day in 2000\$). However, on average annual screenings over this 5 year period increase her life expectancy by 0.005 years. Assume a 5% discount rate.

(a) What is the cost-effectiveness ratio of annual screenings?

(b) What is the cost-effectiveness ratio of one screening every 5 years if it increases her life expectancy by only 0.003 years?

(c) What is your recommendation about the frequency of screenings given this cost-effectiveness analysis?

6. (3 points) A television ad which describes depression as a chemical imbalance which can be corrected by taking a pill (the name of the pill is given at the end of the ad) is an example of what kind of advertising: (circle one)
- (a) informational
 - (b) brand loyalty
 - (c) complementary good
 - (d) soft sell
7. (3 points) Someone with a high discount rate: (circle one)
- (a) values health more than education.
 - (b) puts more value on the future relative to the present.
 - (c) values the present much more than the future.
 - (d) values education more than health.
8. (3 points) What is supplier-induced demand? (circle one)
- (a) The idea that medical providers generate and perform unnecessary services in an effort to increase earnings.
 - (b) The idea that government subsidy payments to hospitals increase the demand for physician services.
 - (c) The percentage of hospital beds being demanded by Medicare patients.
 - (d) The problem of fully informed consumers increasing the demand for medical care.
9. (3 points) Moral hazard refers to: (circle one)
- (a) illegal behavior by insurers.
 - (b) illegal behavior by consumers.
 - (c) consumers' choosing particular plans based on their health statuses.
 - (d) behavior that consumers engage in because they are insured.
10. (5 points) Improved health increases one's well-being because one: (circle all that apply)
- (a) has fewer sick days.
 - (b) can earn more money per hour while working.
 - (c) works less.
 - (d) feels healthy.

11. (5 points) Adverse selection is economically inefficient because: (circle all that apply)
- (a) the healthy will tend to underinsure.
 - (b) the unhealthy will tend to underinsure.
 - (c) the healthy will tend to overinsure.
 - (d) all clients will tend to overinsure.
12. (5 points) 'Cream skimming' refers to: (circle all that apply)
- (a) a form of moral hazard where consumers demand excess care.
 - (b) a form of adverse selection where HMOs or insurers seek healthier clients.
 - (c) government's forcing insurers to treat all clients.
 - (d) a form of moral hazard where providers supply unnecessary care to healthy patients.
13. (5 points) 'Crowd-out' refers to a situation in which program benefits: (circle all that apply)
- (a) lead recipients to replace private insurance with public insurance.
 - (b) lead recipients to replace public insurance with private insurance.
 - (c) cause long waiting lines for services.
 - (d) households stop working in order to qualify for benefits.
14. (5 points) External costs associated with alcohol consumption include: (circle all that apply)
- (a) taxes paid to governments.
 - (b) traffic injuries and fatalities occurring to those who have consumed alcohol.
 - (c) traffic injuries and fatalities to those who are involved in accidents caused by those who have consumed alcohol.
 - (d) second-hand smoke from cigarette smoking by those who drink.
 - (e) domestic violence associated with those who abuse alcohol.