

Homework 5

Due Wednesday, March 4, 2009

1. Assume that a patient has 80 percent coverage for medical services but no coverage for prescription drugs. An 80 percent drug benefit is added. Show graphically what will happen to the relative utilization of M and D , and total spending on health care by the patient, to attain a given health status. What happens to the amount spent on drugs (insurance plus patient amounts)? What happens to total spending on health care (insurance plus patients amounts)? Explain.
2. Draw a utility of wealth curve for consumers who are not risk averse and one for consumers who are 'risk lovers.' Describe how their shapes differ from the curve where the consumer is risk averse. Would either of these types of consumers be willing to pay a risk premium for insurance? If so, show this on the graph. If not, explain.