Chapter 10 Review: Social Insurance 2
Health Care

Readings: Rosen: Chapter 10, all

Outline
I. What Makes Health Care Different? What’s wrong with private markets?

II. What’s Causing the \( \uparrow \) Costs?

III. MediCare (& MediCaid)
   A. MediCaid:
   B. MediCare
      1. Medicare Part A (HI)
      2. Part B: Supplemental Health Insurance (\( \equiv \$193 \text{ B in 2000} \))

IV. Private Health Insurance in the U.S.
   A. Govt. tax subsidy for employer provided insurance
   B. \( \equiv 15\% \) of population is uninsured

V. Reforming the U.S. Health Care System
   A. Issues
      - Reigning in costs (\( \%\Delta \equiv 10\%/\text{year} \))
      - Min level of health care guaranteed
      - Public vs Private insurance
      - Public vs Private production of health services
   B. Possibilities for Reform
      1. Price controls
      2. Managed Care: captiation
         - Ex. HMOs (some medicare enrollment in HMOs)
         - Cons: incentives by HMOs to cut services or restrict entry
      3. Mandates for private provision of Health Insurance along with govt. subsidies to poor
      4. Govt. subsidies for the provision of private insurance
      5. Single Payer (Universal Coverage) options
         a. Govt. is the insurer (or govt. farms out insurance to private companies), Health services are private (ex. ?)
         b. Govt. is the insurer, Health services are public (ex. ?)
   C. The Fundamental Problem
Problems

1. Chapter 10 Discussion Question (pp 218 – 219) # 1

2. Chapter 10 Discussion Question (pp 218 – 219) # 2

3. In France in the 1790’s de-capitation was tried as solution to combat rising health care costs. Today, in the U.S., we are experimenting with capitation as a solution to rising health care costs. Answer the following questions regarding capitation.
   a. What is capitation? Give me another name for capitation.
   b. What is the main alternative to capitation? Hint: It is not decapitation.
   c. Who is the primary group trying capitation in the U.S., the private sector or government?
   d. Give me another name for capitation.
   e. Discuss the pros and cons of capitation.
   f. Discuss the linkages, if any, linkages between de-capitation during the French Revolution and today’s movement towards capitation in the framework of the bipolar-marxist-libertarian view of history.

4. Private markets are hard to beat. Natural market pressures, aka the Invisible Hand, pressure producers to produce quality products at low prices and to benefit the consumer. If this is the case, why don’t we just leave health care entirely to the private sector? Why do we turn to government intervention in the form of regulation and government provided health insurance?
   • Explain the basic differences between health care (& health insurance) and ordinary private goods. What makes health such a different good? Why is the provision of health care likely to run into problems if it is left entirely to market forces?

5. Holy Rising Costs Batman! Health care costs in the U.S. have been increasing by about 10% a year (\(\cong 8\%\) above inflation) in recent years. Similar rates of increase have also been seen in other developed nations. Further, similar rates are expected to continue into the near future.
   • What has been causing these rising costs? What is different about health care (and health insurance) that is pushing up its costs so fast.

6. Describe the Medicare program in the U.S. In particular, answer the following questions.
   a. How big is the Medicare program?
   b. How does one become a participant?
   c. How is Medicare funded?
   d. What kind of shape is Medicare in?
   e. Does Medicare rely primarily on fee for service payments or capitation? Explain the difference between these two payment types.

7. Why is employer provided health insurance in the U.S. so popular? After all, economic theory tells us that cash is weakly preferred to payments in kind. If this is the case, why do employers
have a tendency to offer employees, say $2,000, in health insurance benefits instead of just offering them ($2,000) cash?
8. Your country needs you! You have just received a call from the President of the United States. The “National Consortium to Revise the Health Care System”, a group of government and industry movers and shakers, has hit an impasse. They want to change the U.S. health care system but cannot agree on how. They have decide to turn the matter over to you. You have been asked to design two plans. These plans should be fundamentally different from each other. The consortium will then vote on which of your plans to endorse.

- Design a plan for overhauling/reforming the U.S. health care system. Describe your plan in detail. Explain how it addresses short-comings under the current system. Also, explain the relative weaknesses of your plan.

9. Design a second, or alternative plan. Describe your plan in detail. Explain how it addresses short-comings under the current system. Also, explain the relative weaknesses of your plan. Make sure this plan is significantly different than the one you offered in # 6. It should not just be a “tweaked” version of your previous plan.