Estimating the Tradeoff Between Risk Protection and Moral Hazard with a Nonlinear Budget Set Model of Health Insurance*

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Abstract

Insurance induces a well-known tradeoff between the welfare gains from risk protection and the welfare losses from moral hazard. Existing empirical work estimates each side of this tradeoff separately, potentially yielding mutually inconsistent results. In this paper, I develop a nonlinear budget set model of health insurance that allows me to estimate both sides of this tradeoff jointly, allowing for a relationship between moral hazard and risk protection. An important feature of this model is that it considers nonlinearities in the consumer budget set that arise from deductibles, coinsurance rates, and stoplosses that affect moral hazard as well as risk protection.

[Full paper available from author.]

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