Reflection questions for Gruber social insurance chapters

Chapter 12

1. Why are people willing to buy insurance even when the premium price is greater than the expected value of the claims they will make? In your explanation, clearly define 'risk aversion' and 'diminishing marginal utility', and show how they're connected.

2. Define 'adverse selection' in general terms, and explain why it can lead to losses of efficiency in insurance markets.

3. Define 'moral hazard' in general terms, and explain why it can lead to losses of efficiency in insurance markets.

Chapters 15-16

4. Explain carefully how adverse selection can lead to efficiency losses in the market for nongroup health insurance. How does the PPACA address this problem?

5. Give a basic overview of the Medicaid program. That is, how is it financed, who administers it, who is eligible, and what benefits do they receive?

6. Give a basic overview of the Medicare program. What is the difference between Medicare parts A, B, and D?

7. Explain four advantages and two disadvantages of a 'single payer' system of universal public health care.

8. Give an overview of the PPACA. What are its most important provisions? What major spending increases does it introduce, and what major revenue increases does it introduce?

Chapter 13

9. Explain the basics of how Social Security benefits are calculated – specifically, the Averaged Indexed Monthly Earnings (AIME) and the Primary Insurance Amount (PIA).

10. In theory, people planning their retirement can hedge against the possibility of living longer than expected by purchasing annuities that will make regular payments until they die. However, the market for such annuities might fail because of adverse selection. Explain.

11. Explain the factors leading to long-run insolvency of Social Security, and discuss a few of the ways in which solvency might be restored.

Chapter 17

12. Give a brief description of each of the following programs, and rank them in terms of dollars spent per year: TANF, SSI, Food Stamps, Medicaid, Public Housing, WIC, School Lunches.

13. Explain how welfare policy as a form of social insurance against poverty may create moral hazard, causing redistribution to be analogous to a "leaky bucket".