Professor Tania Barham
Econ 4646

Assignment 1
Moral Hazard and Adverse Selection in the Diabetes Market

Due Date: Oct. 11, 2013 at the beginning of class. If you want to hand in your homework early you can had it in at the Economics office (212 Economics – on the second floor). The office is closed between noon-1pm and after 5pm every day. Your homework must be logged in by one of the support staff.

Please read the article from the *New York Times* ("In the Treatment of Diabetes, Success Often Does Not Pay") on your reading list (Section 5 under Health Insurance). Through a series of questions you will discuss how issues of adverse selection and moral hazard contribute to some of the problems delivering high-quality care to diabetics described in the article. Read the questions, then read the article through completely before starting to answer the questions. Keep your answers brief (1-5 sentences) and only use the article and your notes to answer the questions.

1. (2 points) Briefly describe the causes of type I and type II diabetes presented in the article?
2. (1 point) What are the short-term symptoms of diabetes discussed in the article?
3. (1 point) What are the long-term consequences of diabetes discussed in the article if a person does not manage their diabetes?
4. (2 points) According to the article does the elasticity of demand for preventative care and supplies to control diabetes (such as testing strips) seem to be high (elastic) or low (inelastic)? Include examples from the article to support your point. Why is the elasticity high or low?
5.
    a. (1 point) From class notes or the text book define "moral hazard".
    b. (2 points) The insurance market for diabetes favors covering costs for major complications but not for preventive care or disease management care. Given this, how might the insurance market create moral hazard for demand for diabetes treatment? Explain how the elasticity of demand for preventive care or disease control management affects moral hazard.
6.
    a. (1 point) From the class notes or the text book define adverse selection.
    b. (1 point) How have the insurance companies structured their reimbursement policies to avoid people with diabetes from signing up for their insurance policies (answer needs to come from article)?
    c. (1 point) What is the profit rationale for insurance companies covering expensive treatments of diabetes complications but not the cheaper preventive and disease management treatments?
7. (1 point) Briefly describe government intervention that may improve this situation of poor quality care for diabetes.