

Economics, Vol. 8, No. 4 (December 1989), pp. 279-85. (Reprinted with permission of North-Holland Publishing Company).

HEALTH CARE AND INSURANCE

Publicly Provided Disaster Insurance For Health and the Control of Moral Hazard, by Timothy Besley (Princeton University).

This paper looks at the moral hazard due to health insurance offering a subsidy to the consumption of health care at the margin. We show how the institution of publicly provided disaster insurance yields a welfare improvement. This result is obtained since public insurance encourages insured individuals to reduce the amount of private insurance that they buy and hence diminishes the moral hazard problem. *Journal of Public Economics*, Vol. 39, No. 2 (July 1989), pp. 141-56. (Reprinted with permission of North-Holland Publishing Company).

Insurance and Medical List Prices, by Robert H. Lee (University of North Carolina).

Although there is general agreement that insurance has played a central role in medical price inflation, this consensus is not based on convincing empirical evidence. Indeed, the best available estimates assign insurance a minor role. This paper begins by proposing a simple pricing model in which providers' profit maximizing prices depend on the market shares and cost control strategies of different insurers. Data from a recent national survey of physicians are then used to estimate fee elasticities for this model and to compare its implications with those of an alternative proposed by Sloan (1982). Respecification plus more recent data dramatically increase the estimated impact of insurance on prices. *The Journal of Human Resources*, Vol. 24, No. 4 (Fall 1989), pp. 689-708. (Reprinted with permission of The University of Wisconsin Press).

GOVERNMENT INSURANCE PROGRAMS

Optimal Bank Reorganization Policies and the Pricing of Federal Deposit Insurance, by Sankarshan Acharya and Jean-Francois Dreyfus (New York University).

Optimal dynamic regulatory policies for closing ailing banks and for deposit insurance premia are derived as functions of the rate of flow of bank deposits, and interest rate of deposits, the economy's risk-free interest rate, and the regulators' bank audit/administration costs. Under competitive conditions, the threshold assets-to-deposits ratio below which a bank should be optimally closed is shown to be greater than or equal to one. Optimal deposit insurance premia and probabilities of bank closure are shown to be nondecreasing in the bank's risk on investment and nonincreasing in the bank's current

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