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 assets-to-deposits ratio. *The Journal of Finance*, Vol. 44, No. 5 (December 1989), pp. 1313-33. (Reprinted with permission of *The Journal of Finance*).

Changing Incentives Facing Financial-Services Regulators, by Edward J. Kane (The Ohio State University).

This article analyzes incentive conflicts that government officials face in operating a deposit insurance fund. Unresolved principal-agent problems exist between fund managers, the politicians to whom they report, and the taxpayers who constitute the enterprise's ultimate stockholders. Managers' ability to conceal implicit losses creates a conflict between maximizing the present value of the fund's future cash flows and protecting their own reputations and future job prospects. These conflicts move regulators through incentive cross-over points that mark off three behavioral regimes: (1) slow but open adaptation to client innovations; (2) denial of reputation-threatening problem situations; and (3) grudging truth-admittance about long-deferred problems. *Journal of Financial Services Research*, Vol. 2, No. 3 (September 1989), pp. 265-74. (Reprinted with permission of Kluwer Academic Publishers).

The Federal "Safety Net" and the Repeal of the Glass-Steagall Act's Separation of Commercial and Investment Banking, by George J. Benston (Emory University).

If banks were allowed to engage in securities activities, it is feared that the federal "safety net" - deposit insurance, the Fed's role as lender-of-last resort, and government intervention to prevent financial crises - might be strained and possibly broken as banks' risk taking increased. An analysis of methods of controlling risk taking and bankers' present ability and propensity to take risks leads to a contrary conclusion. Nevertheless, the concern has given rise to a considerable body of empirical work. Studies on bank failures, risk-return profiles, cash flows, and profits and losses from underwriting are reviewed critically. On the whole, both the empirical and theoretical analyses provide little reason for concern about the federal safety net. *Journal of Financial Services Research*, Vol. 2, No. 4 (October 1989), pp. 287-305. (Reprinted with permission of Kluwer Academic Publishers).

SOCIAL INSURANCE

Social Security Financing in North America, by Harry C. Ballantyne (Social Security Administration).

This article presents an overview of social security financing in the United States and Canada. The systems of financing social security, recent financial operations and trends, and the current financing issues are described for both countries. Due largely to past and projected birth rates and mortality rates, the

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