

~~From THE LIBRARY SHELF~~
Utility Theory

A Microeconomic Analysis of Risk Aversion and the Decision to Self-Insure, by Charles J. Cicchetti (Arthur Andersen Economic Consulting) and Jeffrey A. Dubin (California Institute of Technology)

This study estimates a von Neumann-Morgenstern utility function using market data and microeconomic methods. We investigate the decision whether to purchase insurance against the risk of telephone line trouble in the home. Using the choices of approximately 10,000 residential customers, we determine the shape of the utility function and the degree of risk aversion. We find that risk aversion varies systematically in the population and varies with the level of income and that the observed choice behavior is consistent with expected utility maximization. *Journal of Political Economy*, February 1994, 102(1): 169-186. (Reprinted with permission of the *Journal of Political Economy*.)

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Consumption and Savings Behavior

How Does Future Income Affect Current Consumption? by Christopher D. Carroll (Board of Governors of the Federal Reserve System)

This paper tests a straightforward implication of the basic Life Cycle model of consumption: that current consumption depends on expected lifetime income. The paper projects future income for a panel of households and finds that consumption is closely related to projected current income, but unrelated to predictable changes in income. However, future income *uncertainty* has an important effect: consumers facing greater income uncertainty consume less. The results are consistent with "buffer-stock" models of consumption like those of Deaton [1991] or Carroll [1992a, 1992b], where precautionary motives greatly reduce the willingness of prudent consumers to consume out of uncertain future income. *Quarterly Journal of Economics*, February 1994, 109(1): 111-147. (Reprinted with permission of the *Quarterly Journal of Economics*.)

The Savings of the Elderly in Micro and Macro Data, by David N. Weil (Brown University and NBER)

Examination of household (micro) data on the elderly has generally concluded that they do not dissave significantly, whereas estimates using aggregate (macro) data have shown that the presence of a large elderly population leads to a lower saving rate. This paper shows that if interactions between generations are important, one would not expect these estimates to be the same. The paper presents new evidence that bequests are plausibly the source of this discrepancy. Examination of data from young households that have received or expect bequests confirms that bequests are indeed an important factor determining the saving of the young. *Quarterly Journal of Economics*,

February 1994, 109(1): 55-81. (Reprinted with permission of the *Quarterly Journal of Economics*.)

Health Care Delivery

How Hospital Ownership Affects Access to Care for the Uninsured, by Edward C. Norton (Research Triangle Institute) and Douglas O. Staiger (Harvard University)

This article addresses the effect of hospital ownership on the delivery of service to uninsured patients. It compares the volume of uninsured patients treated in for-profit and nonprofit hospitals by regarding hospital ownership and service as endogenous. Instrumental variable estimates are used to predict the percentage of patients who are uninsured, controlling for hospital ownership and service. The study shows that when for-profit and nonprofit hospitals are located in the same area, they serve an equivalent number of uninsured patients, but for-profit hospitals indirectly avoid the uninsured by locating more often in better-insured areas. *RAND Journal of Economics*, Spring 1994, 25(1): 171-185. (Reprinted with permission of the *RAND Journal of Economics*.)

Agency in Health Care: Getting Beyond First Principles, by G. Mooney and M. Ryan

This paper is concerned with the application of the theory of agency to health care. It is argued that the basic theory of agency raises more questions than it provides answers when it is applied to the doctor-patient relationship. More research is needed into the nature of both the patient's and the doctor's utility functions. Only then can we begin to devise optimal incentive structures to encourage doctors to take adequate account of patient preferences. *Journal of Health Economics*, July 1993, 12(2): 125-135. (Reprinted with permission of the *Journal of Economic Literature*.)

Health Care and Insurance

Elasticity Estimates from a Dynamic Model of Interrelated Demands for Private and Public Acute Health Care, by I. D. McAvinchey and A. Yannopoulos

This paper investigates the private/public mix in acute health care provision in the United Kingdom. It uses an interrelated shares model derived from a translog function combined with dynamic adjustment. Using prices for public care constructed from National Health Service waiting lists, the insurance cost of private care, and the retail price index, impact, intermediate, and long-run elasticities of demand for private and public care are obtained. The role of