Theory, June 1995, 66(1): 64-88. (Reprinted with permission of the *Journal of Economic Theory.*)

Risk Perception and Economic Behavior

Insurance, Adverse Selection, and Cream-Skimming, by Tracy R. Lewis and David E. M. Sappington (University of Florida)

We examine optimal insurance policies in a setting where some individuals are perfectly informed about the benefits they would receive under any proposed plan, and others share the insurance provider's imperfect knowledge about likely benefits. The optimal insurance policy is shown to take on a particularly simple linear form, providing full insurance for the smallest and the largest wealth realizations, and no insurance for a range of intermediate wealth realizations. This basic form of the optimal insurance policy persists in dynamic settings and those with endogenous information acquisition. *Journal of Economic Theory,* April 1995, 65(2): 327-358. (Reprinted with permission of the *Journal of Economic Theory.*)

Agricultural Insurance and Soil Depletion in a Simple Dynamic Model, by R. Innes and S. Ardila

The authors study the effects of agricultural insurance on farm production choices, soil depletion, and environment when there are two related risks, one in short-to-medium run production revenues and the other in land value. The analysis considers "pure" and "truncating" insurance programs that stabilize linear combinations of short-run revenue risk and land-price risk. Production-revenue-stabilizing insurance is often found to elicit increased farmer output, thus exacerbating environmental externalities and causing further soil depletion. Land-value-stabilizing insurance typically elicits lower output, thus mitigating environmental externalities and pushing farmers closer to their complete-insurance output levels. *American Journal of Agricultural Economics,* August 1994, 76(3): 371-384. (Reprinted with permission of the *Journal of Economic Literature.*)

Health Care

Conceptualizing, Estimating, and Reforming Fraud, Waste, and Abuse in Health Care Spending, by Jerry L. Mashaw and Theodore R. Marmor

The elimination of waste, fraud, and abuse from U.S. medicine is not a quick or easy solution to the challenge of rising medical care costs. Many of the policy options available for reducing excesses face significant political hurdles or involve value judgments about non-quantifiable issues involving quality of care. Other alternatives seem as likely to bar necessary medical care as to eliminate abuses. In some instances, particularly those involving consumer fraud, a crackdown may merely shift costs without saving any money. Additionally, a number of suggestions for trimming waste and abuse involve ethical

and moral judgments that Americans have yet to acknowledge and, in any event, may not wish to sign over to the government or any other third party. *Yale Journal on Regulation,* Summer 1994, 11(2): 433-494 (Reprinted with permission of ABI/Inform, Copyright UMI.)

Contracts and Supply Assurance in the UK Health Care Market, by P. Fenn, N. Rickman, and A. McGuire

The authors present a formal model of the relationship between a health care purchaser and a provider drawing on the recent experience of explicit contracting in the U.K. health sector. Specifically, they model the contractual relationships emerging between District Health Authorities, who are presently the dominant health care purchasers, and the providers of hospital care. The comparative static analysis implies that the transaction cost of using nonlocal hospitals, the expected patient demand, the extent of excess capacity in local hospitals, and the proportion of that excess capacity expected to be lost to competitive purchasers are all important determinants of the choice of contract. *Journal of Health Economics,* July 1994, 13(2): 125-144. (Reprinted with permission of the *Journal of Economic Literature.*)

Relating Hospital Health Outcomes and Resource Expenditures, by Robert C. Bradbury, Joseph H. Golec, and Paul M. Steen

An analysis addresses the question of whether hospitals with better health outcomes for their patients spend more or less to accomplish these results. Adult medical service admissions to 43
Pennsylvania hospitals are analyzed. Health outcomes and resource expenditures are adjusted for admission severity of illness and other patient variables. The results demonstrate a positive correlation between adjusted mortality (logit regression) and adjusted total charges, ancillary charges, and length of stay (ordinary least squares regression), but only the mortality and length of stay relationship is statistically significant. For patients staying at least four days, however, there is a statistically significant, positive relationship between adjusted mortality and all three adjusted measures of resource expenditures. The relationship between the adjusted morbidity and each of these three adjusted resource measures is positive and statistically significant. The positive relationship is largely unrelated to hospital size, staffing, teaching status, and location in urban areas. *Inquiry,* Spring 1994, 31(1): 56-65. (Reprinted with permission of ABI/Inform, Copyright UMI.)

Agency in Health Care with an Endogenous Budget Constraint, by D. Clark and J. A. Olsen

In this paper, a doctor acts as a perfect agent for a group of patients in an environment where the health service is funded by a group of contributors. The contributor group donates resources to the health sector in accordance with its split preferences about the health care services that they would like for them-