MORAL HAZARD IN HEALTH INSURANCE: WHAT WE KNOW AND HOW WE KNOW IT

Liran Einav
Stanford University

Amy Finkelstein
Massachusetts Institute of Technology

Abstract
We describe research on the impact of health insurance on healthcare spending ("moral hazard"), and use this context to illustrate the value of and important complementarities between different empirical approaches. One common approach is to emphasize a credible research design; we review results from two randomized experiments, as well as some quasi-experimental studies. This work has produced compelling evidence that moral hazard in health insurance exists – that is, individuals, on average, consume less healthcare when they are required to pay more for it out of pocket – as well as qualitative evidence about its nature. These studies alone, however, provide little guidance for forecasting healthcare spending under contracts not directly observed in the data. Therefore, a second and complementary approach is to develop an economic model that can be used out of sample. We note that modeling choices can be consequential: different economic models may fit the reduced form but deliver different counterfactual predictions. An additional role of the more descriptive analyses is therefore to provide guidance regarding model choice. (JEL: D12, G22)

The editor in charge of this paper was Imran Rasul.

Acknowledgments: This paper is based on the Alfred Marshall Lecture delivered by Finkelstein at the EEA–ESEM meetings in Lisbon on August 24, 2017. We gratefully acknowledge support from the NIA for the underlying work discussed (R01AG032449; P30AG012810, RC2AGO36631, and R01AG0345151). We thank Neale Mahoney and Imran Rasul for helpful comments. Einav and Finkelstein are Research Associates at NBER.

E-mail: leinav@stanford.edu (Einav); afink@mit.edu (Finkelstein)