Economics 712

Topics in Applied Microeconomics
Professor Hanming Fang
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Class Schedule: MW, 1:30-3pm, McNeil 582
Office Hours: W 4:00-5:30pm, or by e-mail appointment; 429 McNeil.

Course Objectives:

In this course, we will cover the following topics that are part of my own current research interests:

1. An overview of the recent theoretical and empirical developments related to the economics of discrimination and affirmative action.

2. A comprehensive review of theory, empirical methods and evidence related to asymmetric information in insurance markets.

3. Health Care, Health Insurance and Long Term Care Insurance Market: Interactions of health care/insurance and LTC insurance market with the labor market.

The main goal of the course is to get the students familiarized with the topics and be able to develop independent but related research ideas.

Requirement and Grading:

The course will be a combination of lectures and student presentations. Students who are enrolled in the course for credit are required to sign up for presentations.

The main goal of the course is to get the students familiarized with the topics and be able to develop independent but related research ideas.

1. (40%) Class participation and presentations. Please choose a paper from the papers on the reading list that do not have an asterisk.

2. (60%) Term paper: research proposal. You are expected to pursue some topics covered in class or other related issues (subject to the approval of the instructor). The paper may consist of an empirical and/or theoretical analysis, but should contain some original aspects. You are to complete a two-page research proposal by the end of October, and you have until January 31, 2018 to complete the proposal. Please speak to me if you have difficulty developing a topic, and we will work on it together. Each enrolled student is required to give a short presentation of the preliminary proposal in class toward the end of the semester.

The goal is to get you started on your first research project that can potentially be turned into the third-year paper later.
Reading List

Topic I: Economics of Discrimination and Affirmative Action: Theory, Empirical Methods and Evidence

A. Theory:


B. Empirical Methods to Distinguish Prejudice from Statistical Discrimination:

Topic II: Asymmetric Information and Insurance Markets: Theory, Tests and Welfare Analysis

The key reason for the government to be involved in providing insurance is the potential market failure as a result of asymmetric information. Here we review the basic theory of how asymmetric information may lead to market failure; and the tests for asymmetric information that are derived from the theory; and finally some recent empirical methods to examine the welfare effects of asymmetric information.
A. Theory:
The classical readings on the market failure due to asymmetric information is Akerlof’s (1970) lemon’s paper and Rothschild & Stiglitz’s analysis of competitive insurance market (1976). Arrow’s (1963) classical paper makes uncertainty and asymmetric information central focus of the economic analysis of health economics. All these papers assume one dimensional private information in the risk type of the agents.


Recently there have been some work emphasizing potential private information in other dimensions, such as risk aversion.


B. Empirical Tests of Asymmetric Information:
The most well-known empirical tests of asymmetric information is known as the “positive association property” test, first applied in Chiappori and Salanie (2000) for automobile and Chiappori, Jullien, Salanie and Salanie (2005) showed the robustness of this test. Other applications include Cawley & Philipson (1999) for life insurance market, Finkelstein & McGarry (2006) for Long Term Care insurance market, Fang, Keane & Silverman (2008) for Medigap insurance market.


A recent critique of the positive association test for asymmetric information:


However, “positive correlation property” is not the unique implication from the presence of asymmetric information. The following papers use different angles to examine the presence of asymmetric information.


C. Welfare Effects of Asymmetric Information:
The frontier of this research area lies in welfare analysis of asymmetric information in insurance context. The following list is almost exhaustive about the existing literature.


**Topic III: Health Care, Health Insurance & Long Term Care Market**

A. Why Do Americans Spend So Much More on Health Care?

- He, Hui and Kevin X.D. Huang (2012). "Why Do Americans Spend So Much More in Medical Care than Europeans?" Vanderbilt University.

B. Demand for Medical Care


C. Health as a Form of General Human Capital and Implications


D. Reclassification Risk

Reclassification risk is the risk that consumers face in future insurance premiums. There is no long-term health insurance currently in the U.S. This could lead to significant welfare loss.


E. Interaction between Health Insurance and Labor Market


We will digress on a discussion about a variety of labor market models that differ in the nature of the friction, and how wages are determined. Such models are ingredients to study the interaction between social insurance programs and the labor market.


F. Evaluating the Effect of Affordable Care Act

Health care reform is one of the most important policy issues in the US. There are numerous angles from which one can examine the issues related to the health care system.


G. Long Term Care Insurance


