

Finnish Doctoral Programme in Economics (FDPE)

**Mini Course: Markets with Asymmetric Information**

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**March 25-28, 2013**

The course will focus on recent empirical research on insurance markets and credit markets. Both markets are plagued with various aspects of asymmetric information, including moral hazard and adverse selection. The industrial organization and competitive environment of such markets is not well understood, and the increased availability of excellent data from these markets makes them great candidates for dissertation research.

The narrow objective of the mini course is to bring students closer to the research frontier in the above areas. At a more general level, I hope to balance two objectives: learning how to identify and pose interesting questions, and learning how to formulate and execute empirical analysis that sheds light on these questions. I will also try to highlight the use of theory to guide hypothesis testing and the specification of empirical models.

It is recommended that students who wish to take the class come with adequate background, especially in graduate level economic theory and econometrics and ideally also in empirical industrial organization. Some parts of the course may be less accessible to students that do not have this background.

**Course logistics and requirements**

The course will consist of four meetings, which will take place every day between March 25 and March 28. Lecture notes and other course material will be posted at <http://www.hecer.fi/FDPE/specialcourses/SIO13.htm>, where lecture times, locations, and additional details will be posted as well. Student requirements will include attendance (20%), class preparation and participation (30%), and a take-home final exam (50%).

**Meeting times and locations**

- Class #1: Lecture Hall  
Monday, March 25: 1:30-2:45, 3:00-4:15, 4:30-5:45
- Class #2: Seminar Room 1  
Tuesday, March 26: 11:00-12:15, 1:15-2:30, 2:45-4:00
- Class #3: Seminar Room 2  
Wednesday, March 27: 11:00-12:15, 1:15-2:30, 2:45-4:00
- Class #4: Lecture Hall  
Thursday, March 28: 9:00-10:15, 10:30-11:45, 12:45-2:00
- Final exam: posted on Wednesday, April 3, at 8:00am (due 48 hours later)

## Reading List

(\*) = paper discussed in class

### 1. Theoretical background

- Arrow, "Uncertainty and the Welfare Economics of Medical Care," AER, 1963.
- Arrow, Essays in the Theory of Risk Bearing (Chicago: Markham, 1971).
- Akerlof, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," QJE, 1970.
- Pauly, "The Economics of Moral Hazard: Comment," AER, 1968.
- Rothschild and Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," QJE, 1976.
- (\*)Einav and Finkelstein, "Selection in Insurance Markets: Theory and Empirics in Pictures," JEP, 2011.

### 2. Testing for Asymmetric Information in Insurance Markets

- (\*)Chiappori and Salanie, "Testing for Asymmetric Information in Insurance Markets," JPE, 2000.
- Chiappori and Salanie, "Testing Contract Theory: A Survey of Some Recent Work," in M. Dewatripont and L. Hansen, ed., Advances in Economics.
- Fang, Keane, and Silverman, "Sources of Advantageous Selection: Evidence from the Medigap Insurance Market," JPE, 2008.
- (\*)Finkelstein and McGarry, "Multiple dimensions of private information: evidence from the long-term care insurance market," AER, 2006.
- Finkelstein and Poterba, "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," JPE, 2004.
- Genesove, "Adverse Selection in the Wholesale Used Car Market," JPE, 1993.
- Israel, "Do We Drive More Safely When Accidents Are More Expensive? Identifying Moral Hazard from Experience Rating Schemes," working paper.
- Puelitz and Snow, "Evidence on Adverse Selection: Equilibrium Signaling and Cross-Subsidization in the Insurance Market," JPE, 1994.

### 3. Estimating Demand for Insurance

- (\*)Cardon and Hendel, "Asymmetric Information in Health Insurance: Evidence from the National Medical Expenditure Survey," Rand, 2001.
- (\*)Cohen and Einav, "Estimating Risk Preferences from Deductible Choice," AER, 2007.
- Einav, Finkelstein, and Schrimpf, "Optimal Mandates and The Welfare Cost of Assymmetric Information: Evidence from the U.K. Annuity Market," Econometrica, 2010.

#### **4. Welfare in Insurance Markets**

- (\*)Einav, Finkelstein, and Cullen, “Estimating welfare in insurance markets using variation in prices,” QJE, 2010.
- (\*)Bundorf, Levin, and Mahoney, “Pricing, Matching and Efficiency in Health Plan Choice,” AER, forthcoming.
- Einav, Finkelstein, and Levin, “Beyond Testing: Empirical Models of Insurance Markets,” Annual Reviews of Economics, 2010.
- Carlin and Town, “Adverse Selection, Welfare and Optimal Pricing of Employer-Sponsored Health Plans,” working paper.
- Lustig, “The Welfare Effects of Adverse Selection in Privatized Medicare,” working paper.

#### **5. Additional topics in Insurance Markets**

- (\*)Einav, Finkelstein, Ryan, Schrimpf, and Cullen, “Selection on Moral Hazard in Health Insurance,” AER, 2013.
- (\*)Handel, “Adverse Selection and Switching Costs in Health Insurance Markets: When Nudging Hurts,” AER, forthcoming.
- Cabral, “Claim Timing and Ex Post Insurance Selection: Evidence from Dental ‘Insurance’,” working paper.
- Cohen, “Asymmetric Information and Learning in the Automobile Insurance Market,” REStat, 2005.
- (\*)Hendel and Lizzeri, “The role of commitment in dynamic contracts: evidence from life insurance,” QJE, 2003.

#### **6. Credit Markets**

- Ausubel, “The Failure of Competition in the Credit Card Market,” AER 1991.
- Ausubel, “Adverse Selection in the Credit Card Market,” University of Maryland Working Paper, June 1999.
- (\*)Adams, Einav, and Levin, “Liquidity Constraints and Imperfect Information in Subprime Lending,” AER, 2009.
- (\*)Einav, Jenkins, and Levin, “Contract Pricing in Consumer Credit Markets,” Econometrica, 2012.
- Einav, Jenkins, and Levin, “The Impact of Information Technology on Consumer Lending,” Rand, forthcoming.
- Jaffee and Russell, “Imperfect Information, Uncertainty and Credit Rationing,” QJE, 1976.
- (\*)Karlan and Zinman, “Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment,” Econometrica, 2009.
- Stiglitz and Weiss, “Credit Rationing in Markets with Imperfect Information,” AER, 1981.