Health insurance decision: a theoretical and experimental investigation

David Crainich[1], Léontine Goldzahl[2], Florence Jusot[3,4], and Doriane Mignon[*,3]

[1]CNRS (LEM UMR 9221) and IESEG School of Management
[2]Edhec Business School
[3]Université Paris-Dauphine, PSL, LEDa, LEGOS, Paris, France
[4]IRDES

Work in progress, do not cite

Abstract

Based on the evidence that health insurance reduces health damages by improving health-care access, we examine health insurance decision using a bivariate model with financial and health outcomes. We derive theoretical predictions on the effect of preferences (preference for health relative to wealth, risk aversion in the financial domain and preferences towards the correlation between wealth and health) on treatment and insurance decisions and depending on those preferences, we also derive theoretical predictions on the relationship between insurance indemnity and treatment intensity. We test these predictions using data collected in a laboratory experiment. In line with our theoretical model, our empirical results suggest that preference for health relative to wealth explains health insurance through treatment choice, correlation averse individuals purchase higher levels of health insurance coverage and the relationship between treatment and insurance indemnity is positive among risk averse/correlation neutral, risk averse/correlation seeker and risk neutral/correlation lover individuals.

JEL: I13, C91, D90
Key words : health insurance demand, laboratory experiment, preferences

[*]Corresponding author: doriane.mignon@dauphine.fr
Université Paris-Dauphine, Place du Maréchal de Lattre de Tassigny, 75016 Paris