Unit 2.10 — Asymmetric Information

Self-taught Task

1. Read Unit 2.10 on Asymmetric Information, adverse selection and moral hazard in Tragakes.
2. Read the two news articles handed out in class (Article A and Article B below).
3. Answer the short-answer questions for each article.
4. Use your answers to create an essay plan with dotpoints.. We will then take 45 minutes to complete the essay under exam conditions in class.

Article A — Government policy responding to adverse selection

"Trump renews order to reveal health care prices but consumers hardly use it"

By Daniel Chang, KFF Health News, published via NPR — 31 March 2025

https://www.npr.org/sections/shots-health-news/2025/03/31/nx-s1-5342873/how-much-will-that-surgery-cost-hospital-price-lists-remain-largely-unhelpful

Article B — Government policy responding to moral hazard

"Experts flag moral hazard risk as U.S. intervenes in SVB crisis"

By Reuters — 13 March 2023

https://www.reuters.com/business/finance/experts-flag-moral-hazard-risk-us-intervenes-svb-crisis-2023-03-13/

How much will that surgery cost? Hospital price lists remain largely unhelpful

March 31, 20256:00 AM ET

By Daniel Chang

It's a holy grail of health care: forcing the industry to reveal prices negotiated between health plans and hospitals — information that had long been treated as a trade secret. And among the flurry of executive orders President Trump signed during his first five weeks back in office was a promise to "Make America Healthy Again" by giving patients accurate health care prices.

The goal is to force hospitals and health insurance companies to make it easier for consumers to compare the actual prices of medical procedures and prescription drugs. Trump gave his administration until the end of May to come up with a standard and a mechanism to make sure the health care industry complies.

But Trump's 2025 order is also a symbol of how little progress the country has made since he issued a similar directive nearly six years ago. Consumers find it only partially useful, and the quality of the information is spotty.

The 2019 order was "pretty bold," said Gary Claxton, a senior vice president at KFF, a health information nonprofit that includes KFF Health News. "They basically went at the providers and the plans and said, 'All this data you think is confidential we're not going to make confidential anymore.' "

What followed was, to consumer advocacy groups, a disappointment. Hospitals and insurers posted on websites voluminous, complex and confusing data about their prices. The information has been a challenge for even experts in health care pricing to navigate, let alone consumers. Some members of Congress filed legislation to put the force of law behind price transparency requirements; those bills died. And President Joe Biden's administration was criticized for not more stringently enforcing the regulations, with one consumer advocacy group even buying a Super Bowl ad featuring the rapper Fat Joe alleging that "hospitals and insurers hide their prices."

Trump's new order, signed in February, said that hospitals and health plans "were not adequately held to account when their price transparency data was incomplete or not even posted at all."

The Government Accountability Office reported in October that the Centers for Medicare & Medicaid Services didn't know whether prices reported by the health care industry were correct or complete. But CMS, which regulates hospitals, now plans to "systematically monitor compliance" and help institutions understand the requirements, said Catherine Howden, an agency spokesperson.

Meanwhile, independent researchers have found numerous problems with the quality of price data both hospitals and health insurers do share with consumers. A recent report from the Peterson-KFF Health System Tracker found that data reported by four health insurers in New York City often included prices that they say they pay hospitals for services that those health providers don't — or can't — provide. In other cases, the data included different prices for the same service paid for by the same insurer at the same hospital. Or, the insurers reported paying the same price for vastly different services. Neither UnitedHealthcare nor Aetna addressed the discrepancies in the data.

Estimates and total prices aren't very useful for consumers, who are mainly interested in what they'll ultimately have to pay out of pocket, said David Cutler, a professor of applied economics at Harvard University. That can vary by health plan, depending on deductibles, copayments and other fees. It also doesn't give consumers information about the quality of care, Cutler added, which can lead to an old bias. "It's kind of like wine when you go to the restaurant," he said. "People assume that the more expensive wine is better."

Cutler said he's skeptical that price transparency will lower costs for patients. But he said it may offer insight to hospitals and health plans about what their competitors are charging and paying for services — knowledge that could inadvertently lead to price increases if hospitals that receive a lower rate than a competitor demand higher reimbursement from health plans.

Some patients say that with research and persistence, they've been able to make price transparency work for them. Theresa Schmotzer, 50, of Goodyear, Ariz., said she used hospital price data to save nearly $3,000 on outpatient surgery to have a fibroid removed last year. Schmotzer, who has health insurance, said the hospital first told her she would owe $3,700 for the procedure and wanted the payment up front. But she was skeptical. She said her health insurer was unable to quote a price for the procedure or specify how much she would owe. The morning of the surgery, Schmotzer said, she found a spreadsheet online at PatientRightsAdvocate.org that included different prices paid by insurers, including hers. The reported price for the procedure was closer to $700, she said.

Schmotzer said she took a printout of the spreadsheet to the hospital and presented it during preadmission. She paid her $300 deductible and told the hospital to bill her for the rest. A few months later, she said, the bill arrived in the mail for the remaining $400, which she paid. When people go for surgery and aren't clear up front what the cost will be, it stokes fear, she said. "Because they're going in blind."

CMS has developed rules since Trump's 2019 order to make price information reported by hospitals and health plans easier to understand, and the agency has fined more than a dozen hospitals for failing to comply. Federal rules allow hospitals to report an estimate, a price range, or a historical rate for their services, while health plans can adjust prices based on factors like the severity of the case, the length of treatment and a patient's age. KFF's Claxton said that such flexibility doesn't allow for "apples-to-apples comparisons" and that the data must be reliable before researchers can use it to better understand health care costs. "It doesn't seem to be that yet," he said.

Much remains to be done before price transparency lives up to expectations that it will increase competition and lower costs, said Katie Martin, chief executive of the Health Care Cost Institute, a nonprofit research group. Price transparency alone is not a silver bullet, Martin said. It's "a critical first step" for employers, lawmakers, regulators and others to better understand how money flows through the health care system and how to make it more efficient, she said. "It's not the whole thing."

Experts flag moral hazard risk as U.S. intervenes in SVB crisis

By Scott Murdoch and Carolina Mandl

March 13, 2023 5:22 PM GMT+11 ·

U.S. regulators may have stemmed a banking crisis by guaranteeing deposits of collapsed Silicon Valley Bank (SVB), but some experts warn that the move has encouraged bad investor behaviour.

Following a weekend of discussions over the future of SVB owner SVB Financial Group , banking regulators unveiled emergency funding plans for the bank. Billionaire hedge fund manager Bill Ackman wrote on Twitter that if authorities had not intervened, "we would have had a 1930s bank run continuing first thing Monday causing enormous economic damage and hardship to millions." "More banks will likely fail despite the intervention, but we now have a clear roadmap for how the gov't will manage them."

Yet by guaranteeing that depositors would lose no money, authorities have again raised the question of moral hazard - removal of people's incentive to guard against financial risk. "This is a bailout and a major change of the way in which the U.S. system was built and its incentives," said Nicolas Veron, senior fellow at the Peterson Institute for International Economics in Washington. "The cost will be passed on to everyone who uses banking services." "If all bank deposits are now insured, why do you need banks?"

Separately, officials said depositors of New York's Signature Bank (SBNY.O) , which the New York state financial regulator closed on Sunday, would also be made whole at no loss to the taxpayer. Also, the Federal Reserve made it easier for banks to borrow from it in emergencies. "... If the Fed is now backstopping anyone facing asset/rates pain, then they are de facto allowing a massive easing of financial conditions as well as soaring moral hazard," Rabobank bank strategists Michael Every and Ben Picton wrote in a note to clients.

Because only the first $250,000 of each deposit at a U.S. bank is insured by the Federal Deposit Insurance Corporation (FDIC), last week's collapse of SVB sparked concerns that its small-business SVB Financial Group clients would be unable to pay employees. Some 89% of around $200 billion in deposits held by SVB at the end of 2022 was uninsured, according to the FDIC. Regulators have now removed that risk. But in doing so "they took another step towards demonstrating that they are unwilling to allow free markets to sort themselves out," said Toronto-based independent proprietary trader Kevin Muir.

Some analysts said the U.S. actions were not a bailout, because shareholders and unsecured debtholders of SVB would not be covered. "It's certainly a stress relief in the short-term, and we can worry about moral hazard and lax regulation later," said Steve Sosnick, chief strategist at Interactive Brokers in Connecticut, referring to the regulators' actions. "Stock and bond holders in SVB and Signature are likely wiped out. That's a lot of money that simply evaporated, which has to hurt someone. It won't fully remove the worries about what other banks might be in trouble."

The regulators' moves pushed up U.S. stock futures in Asian trade on Monday, but investors wagered that, amid the financial nervousness, a U.S. interest rate rise this month was no longer a certainty.

Reporting by Scott Murdoch in Sydney, Carolina Mandl in New York and Elisa Martinuzzi in London; Editing by Anshuman Daga and Bradley Perrett

Questions — Article A (hospital price transparency)

1. What specific market and information gap is this article about? Who holds more information — the buyer (patient) or the seller (hospital/insurer)?
2. What government policy has been used to try to fix this? Which category does it belong to (regulation / provision of information / licensure)?
3. Find one piece of evidence in the article that shows the policy working — a strength.
4. Find one piece of evidence in the article that shows a weakness or limitation of the policy.

Questions — Article B (SVB collapse and government intervention)

1. Why do multiple experts in the article call this a case of moral hazard? Find the specific phrase or quote that best explains it.
2. Find one quote in the article that argues the intervention was necessary or beneficial — a strength.
3. Find one quote in the article that criticises the intervention or points to a negative consequence — a weakness.

Article A: Q.1	
Article A: Q2	
Article A: Q3	
Article A: Q4	
Article B: Q1	
Article B: Q2	
Article B: Q3	

Paper 1, 15 Marker Question

> *Using real-world examples, evaluate the policies a government might adopt to respond to a market situation in which significant asymmetric information exists.*

Essay plan — Response to the Paper 1 15-marker question

Create a plan with dot-points to answer later under exam conditions.

Paragraph	What to include (dot points)	
Introduction	Define: key terms of the question. Introduce briefly the main theory. State the two policies/examples you will cover.	
Paragraph One (Article A)	Identify the real-world example from Article A. Align it with the IB government policy it represents. Fully explain the theory.	
Paragraph Two (Article A)	Identify the strengths of this policy, both theoretically and in the article.	
Paragraph Three (Article A)	Identify the weaknesses of this policy.	
Paragraph Four (Article B)	Identify the real-world example from Article B. Align it with the IB government policy it represents. Fully explain the theory.	
Paragraph Five (Article B)	Identify the strengths of this policy, both theoretically and in the article.	
Paragraph Six (Article B)	Identify the weaknesses of this policy.	
Conclusion	*It is an "evaluate" question. So make a judgement as to the two policies' effectiveness.*	