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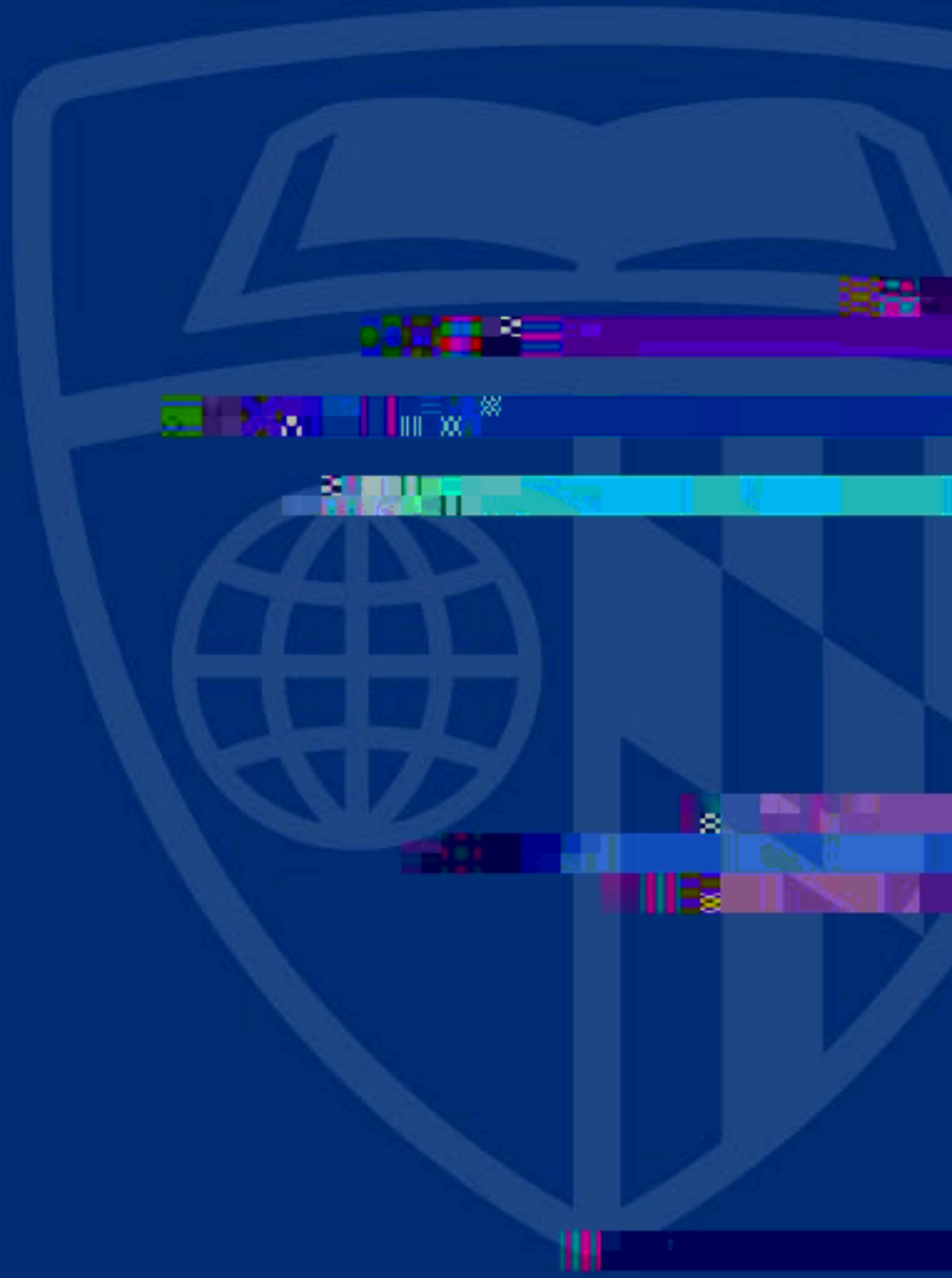

Main ideas of the paper

- Motivated by ACA concentrated markets, the authors ask why?
- Adverse selection may incentivize insurers to lower their prices to compete for patients with lower risks (healthier), in order to reduce their AC.
- But the aggressive pricing would lead to lower profits.
- Hence, fewer insurers will find it profitable to enter/stay in the market.
- It is possible that only one insurer finds it profitable to stay in the market.
- But when only one insurer survives, it becomes a monopoly. Because there is no need to compete, it is free to charge monopoly price, i.e., it will end up setting prices much higher than when there are two firms.
- The authors argue that imposing a "price floor" could help increasing competition and improving consumer welfare.

Comments

- There could be alternative way to compete: An equilibrium where one firm targets sicker patients, and the other firm targets healthier patients.
- Imagine hospitals differentiate themselves in high and low quality.
- Suppose sicker patients put more utility weight on the quality of care.
- To target sicker (healthier) patients, an insurer can contract with high (low) quality hospitals, and set their plan at a higher (lower) price.
- Are there any institutional features of the US health insurance market which could prevent this from happening?
- Fact: Only one-fifth of markets with 12 participating insurers, and other markets have more participating insurers. It's not really the case that we see man57 (nB(l)-1.4 ()-1.i[iiuo2i)-1.BMCI -7.1475 Tmf2M m (.)-1.5 ( )4.4 ((

Empirical Part

- Data from Commonwealth Care in Massachusetts.
- Data tracks healthcare utilization and spending for each person.
- **Plans are differentiated in their networks of hospitals and doctors, and premiums**.
- Premium could vary only on specific factors (e.g., income and region), but not on age or health status.
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Empirical Part (cont'd)

- The main goal of the empirical exercise is to estimate the demand side (utility function) parameters, and the cost parameters of serving different types of patients.
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Other detailed comments (model predictions)

- One prediction is that monopoly will set price high.
  - Is there any empirical evidence to support this?
  - Does the prediction ignore the potential threat of new entrants?
  - I understand that the paper argues that it won't be profitable for a potential entrant to enter and hence no need for the monopoly to price low.
  - But do we need to assume the incumbent has some absolute advantag tta179.662 231.6231 Tm (•)Tj EMC /LBody <5/MCID 30 >>BD

Conclusion

- This is a very interesting paper with new insights about the interaction between adverse selection, price competition and **firms entry**.

- It provides a new explanation about the lack of competition in ACA markets.

- I have learnt a lot. I would encourage you to read it!