

Practice Quiz 1, ECON 3301, Darren Grant. This practice quiz is intended to give you a flavor of the type of questions that might appear on your test. Answers are given at bottom, so I recommend folding over and answering blind first, then looking at the answers. You will find practice questions of all three types: multiple choice from the notes, multiple choice from the book, and free response.

1. Under traditional indemnity insurance, the insurance company would pay physicians whatever they typically charged for services rendered. (Choose the best of the three responses below.)
 - a) This statement is basically true.
 - b) This statement is false.
 - c) The physician worked for the insurance company at a salary agreed on by both parties.

2. The book discussion of the development of the insurance companies Kaiser, GHA, and U.S. Healthcare, emphasized:
 - a) the demand for health insurance
 - b) government regulations
 - c) entrepreneurship and ownership

3. When we did a cost-benefit analysis for bicycle helmets:
 - a) we put a dollar figure on the benefits of wearing helmets, as well as the costs
 - b) we figured out whether helmets reduced bicycling injuries/fatalities significantly
 - c) we figured out whether the money spent on helmets would save more lives if spent elsewhere

4. In class we discussed four major strategies adopted by managed care to try to reduce costs. Name all four and briefly describe each.

5. (See Getzen, p. 86, #6) Which type of insurance coverage would likely cause more moral hazard problems: a) a payment of \$10,000 for each eye or limb lost, or b) a payment of \$50 for each day spent in a nursing home? Why?

Answers and Brief Explanation:

1. The answer is a. The other choices are just completely wrong—the phrase used in class was “pay prevailing rates.”

2. The answer is c. Now, if you return to the relevant chapter (Ch. 10), you’ll see the discussion of these companies took several pages. Re-read it, and you’ll see issues of ownership and entrepreneurship appearing everywhere, and the others hardly at all.

3. The answer is a. The other answers are plausible—they are reasonable things to do, they simply are not what we did in class, and they do not describe a cost-benefit analysis.

4. The answer: selective contracting, prospective payment, experience rating, and utilization review. See the notes for descriptions of each. I think of this as a very basic question—you should not plan on walking into the test without knowing material like this.

5. The answer is b. You might go to a nursing home if insurance was paying much of the cost, or stay longer because of it, but I doubt you’d lose an eye or limb for \$10,000. This requires judgment but I don’t think it’s a close call.

Now that you’ve seen the type of questions to expect, prepare accordingly.