Separate inference for moral hazard and selection problems in insurance markets: With application to US dental insurance market

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This paper proposes a simple econometric framework to analyze asymmetric information in insurance markets where we can identify moral hazard and selection problems separately. It is shown that we need to impose a behavioral assumption on consumer's optimization to ensure the separate identification when we only have cross-section data. Our methodology is applied for the dental insurance market in the United States. In addition to standard moral hazard, advantageous selection, which indicates less risky consumers would have larger demand for the dental insurance, is detected.