

New Economic School
Research project for 2005-2006
Topics in institutions and microeconomics

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April 29, 2005

1 Topics in Economics of Health Care Provision.

What features distinguish the market for health care provision from other markets? Why are most citizens of all nations, including the most developed ones, unsatisfied with how medical services are provided in their countries? Why do many believe that health care, unlike most other goods, should be provided to everyone for free?

This subproject encompasses both theoretical and institutional approaches. On the theoretical level, there are at least two possible related research issues (but students may want to formulate more topics).

1. Provision on medical care heavily involves issues of unobservable quality, credence, asymmetric information (both moral hazard and adverse selection) and most promising behavioral economics (e.g., time inconsistency). There has been some albeit limited literature on contractual provisions for health care (see, for example, [6]). One other challenge is to model physician's preferences over the treatment choices (it is more or less clear that her own profit is not the only consideration for her).

2. Serious medical treatment is likely to cost more than an individual can instantaneously pay for, which opens the door for insurance arrangements, public or private. Once insurance is introduced into the system, the question arises whether physicians and patients may have incentives to abuse the system. What is the optimal insurance scheme? Under what assumptions about technology and preferences is public insurance better or worse than the private one?

The institutional approach to health care provision targets cross-country studies of history and traditions of health care provisions and also specifically treats health care traditions in Russia. Students writing theses in this area will be expected, besides modeling, to find and study materials pertaining to the history of health care provision in different societies and to uncover factors that shaped health care institutions the way we see them today. A survey (in Russian) of institutional arrangement in Russia's health care provision can be found in [7].

3. Why do some countries have free health care while others do not? When and why has free health care been introduced or abandoned? Why did the health care sector in Russia experience little modernization and reportedly deteriorated in the last 15 years?
4. Why do doctors retain high social status in the eyes of so many people despite their often modest or low compensations? Why do so many want to study medicine despite low doctors' compensation? Why do not highly qualified professionals leave en masse for private hospitals and medical offices? Few papers have been written on this subject so far, some analytical materials can be found in [7].

2 Topics in Intellectual Property Protection and Information Transmission

Conventional economic wisdom regards any monopoly as a harm: generally, a monopolist provides a suboptimal level of service and appropriates a bulk of the surplus. Yet, some exemptions are usually made, the case of intellectual property being one of them. Indeed, ideas have some properties of public goods (they are often non-rivalrous: e.g., my knowledge and use of the Pythagorean theorem does not prevent you from using it), and in the absence of legal protection they could be undersupplied. Besides, in R&D there typically are increasing returns (large sunk costs and low costs of reproduction), and also there are certain problems due to indivisibility of knowledge. Overall, conventional literature argues that to give proper incentives to inventors, they should be granted an opportunity to recoup the resources spent to create an innovation (or, more generally, an intellectual product); a temporal protection of intellectual property, implemented through patent and copyright legislation, is one of the means to achieve this. The optimal scope of such protection (e.g., the breadth and the width of patents granted), however, is subject to debate. Some papers even contend that losses due to patent and copyright protection laws outweigh the gains, and argue against "intellectual monopoly" (e.g. Boldrin and Levine [8],[9]).

The project will consist of studying the existing literature (one can start with a comprehensive book of Scotchmer [13]) and contributing to it. Besides economic modeling, the project presumes some empirical work, such as case studies concerning the current practice of intellectual property protection in Russia.

5. Dissemination of ideas requires efforts of both the producer and the consumer: the effort of the producer is needed to make the idea clear

to the consumer, while the buyer needs to effort to be able to comprehend the idea. One can study how the legal environment (the level of intellectual property protection) affects the distribution of efforts between the parties (see Dewatripont and Tirole [10], who study communication as a moral hazard in teams problem).

6. Another topic could be to study the optimal level (and the optimal mechanisms) of intellectual property protection in environments with imperfect judicial systems, which are often immanent to transition economies. Given that courts are imperfect, is it better to have tighter rules for intellectual property protection or is it better to leave more scope for private contracting?
7. How does software licensing function? What determines the choice of a license type? There are some papers (e.g. Lerner and Tirole [12]), but more economic modeling remains to be done.
8. As some papers have shown, innovative activity can be rewarded properly even in competitive environments (e.g., [9]) if no distinction is made between the author and the publisher. However, there are potential inefficiencies due to bargaining under asymmetric information between authors and publishers, and an interesting question is how such bargaining is affected by the choice of copyright legislation.

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