Rejoinder

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Professor Nyman and I now appear to be in agreement on the point that if the response to consumer cost sharing in the Rand experiment is taken as being the sum of an income and substitution effect, the substitution effect was almost certainly 90% or more of the total observed effect, rather than the much lower figure he suggested in his 1999 paper (Nyman, 2000, 1999).1 I also agree with him that an analysis which stresses the income effect is much more relevant in a comparison between insured and uninsured individuals, than in one involving individuals insured in plans with different stop-loss provisions.

References


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1 In fact, if one considers both inpatient and outpatient expenditures, it is likely to have been well above 90%, for two reasons. First, the average out-of-pocket spending of those in the 95% plan was considerably less than 95% of their total spending (because of the stop-loss provision); accounting for this would reduce the size of the income effect in the calculations. The second reason is the participation incentive in the Rand study. This incentive implies that the income of those in the 95% cost-sharing plan was considerably higher than for those who were fully insured. Taking this into account, the substitution effect in the Rand study may even have been 100% or more of the observed total response.