Public Economics – Fall 2017

Practical Session IX – Social insurance (part 2) + Social security

Social insurance

1. Describe the dimensions along which moral hazard can exist. Can you think of ways in which the government can reduce the prevalence of moral hazard along each dimension?

2. Why does the government mandate individuals to purchase their own insurance in some cases—such as automobile liability insurance—but directly provide insurance to people in other situations—such as health insurance?

Social security

1. The government of Westlovakia has just reformed its social security system. This reform changed two aspects of the system: (1) It abolished its actuarial reduction for early retirement, and (2) it reduced the payroll tax by half for workers who continued to work beyond the early retirement age. Would the average retirement age for Weslovakian workers increase or decrease in response to these two changes, or can you tell? Explain your answer.

2. Dominitz, Manski, and Heinz (2003) present survey evidence suggesting that young Americans are extremely uncertain about the likelihood that they will receive any Social Security benefits at all. How might demographic trends in the United States contribute to this concern? (Discussion question with reference to Europe) .

3. Does Social Security provide much benefit in terms of consumption smoothing over the retirement decision? Contrast Social Security with a different social insurance program, unemployment insurance, which provides income support for half a year to individuals who have lost their jobs. Do you think that unemployment insurance is likely to provide more or less consumption smoothing than Social Security?