Adverse selection and moral hazard among the poor: evidence from a randomized experiment

Spenkch, Jörg L.

University of Chicago

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Adverse Selection and Moral Hazard Among the Poor: Evidence from a Randomized Experiment*

Jörg L. Spenkuch
University of Chicago

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Abstract

Not only does economic theory predict high-risk individuals to be more likely to purchase insurance, but insurance coverage is also thought to crowd out precautionary activities. In spite of stark theoretical predictions, there is conflicting empirical evidence on adverse selection, and evidence on ex ante moral hazard is very scarce. Using data from the Seguro Popular Experiment in Mexico, this paper documents patterns of adverse selection into health insurance as well as the existence of non-negligible ex ante moral hazard. More specifically, the findings indicate that (i) agents in poor self-assessed health prior to the intervention have, all else equal, a higher propensity to take up insurance; and (ii) insurance coverage reduces the demand for self-protection in the form of preventive care. Curiously, however, individuals do not sort based on objective measures of their health.

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I. Introduction

Starting with the seminal work of Arrow (1963), economists have long been aware of the possibility of market failure due to asymmetric information. Standard explanations for why the First Welfare Theorem may not hold rely on adverse selection (Akerlof 1970, Rothschild and Stiglitz 1976) as well as ex ante and ex post moral hazard (Ehrlich and Becker 1972, Pauly 1968, 1974).

In the context of insurance markets, these models postulate a positive correlation between coverage and risk occurrence (Chiappori and Salanié 2000, Chiappori et al. 2006).[1] Yet, empirical tests of this prediction point often in conflicting directions. Cawley and Philipson (1999), for instance, find little or no information asymmetries in the market for life insurance, whereas Finkelstein and Poterba (2002, 2004) conclude the opposite with respect to that for annuities.[2]

However, even if 'high risk' agents are, ceteris paribus, more likely to purchase insurance than their low risk counterparts, insurance status and ex post risk occurrence need not be correlated when individuals possess multidimensional private information (de Meza and Webb 2001); and a positive correlation alone is uninformative about whether market failures are due to adverse selection or moral hazard. But exactly this distinction is important for public policy. Consider, for example, the case of insurance mandates—as implemented in many European countries. While mandates are often welfare enhancing when inefficiencies are due to selection, it is well known that requiring coverage may actually decrease welfare in the presence of moral hazard.

Using data from a large-scale randomized field experiment in Mexico, this paper makes two contributions to the literature. First, it exploits rich information on agents' health prior to the intervention coupled with experimental variation in access to health insurance in order to analyze sorting based on risk, thereby disentangling moral hazard from adverse selection. Second, the paper explicitly tests for ex ante moral hazard.[3]

In 2004 the Mexican government introduced the System for Social Protection in Health (Sistema de Protección Social en Salud, SPSS). This reform sought to extend insurance coverage to all workers outside the formal sector through the introduction of Seguro Popular en Salud (SP). SP is a voluntary health insurance option available to the uninsured and their dependents, who then comprised about half of

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[1] In the insurance setting, adverse select refers to the idea that 'high risk' individuals are more likely to buy insurance, or purchase more coverage than 'low risk' ones. Ex ante moral hazard is said to exist when the insured invest less effort in self-protection than their uninsured counterparts; and ex post moral hazard captures agents' failure to fully internalize the cost of covered services.
[2] For a useful review of the empirical literature see Chiappori and Salanié (2003).
[3] Unfortunately, the data only contain information on out-of-pocket (as opposed to total) medical expenditures, and do not lend themselves to a test of ex post moral hazard. See Cutler and Zeckhauser (2000) for a survey of earlier, non-experimental attempts to infer adverse selection from the correlation between insurance status and individual characteristics proxying for risk.

the Mexican population. Administrative and budgetary constraints, however, required SP to be rolled out in different stages over a multi-year horizon.[4]

Commissioned by the government to evaluate SP, King et al. (2007, 2009a) use the staged rollout to experimentally introduce geographic variation in the availability of health insurance for the poor. They report that within 10 months after random assignment SP reduced catastrophic out-of-pocket health expenditures by 6.5 percentage points, but did not increase the utilization of medical care (King et al. 2009b). All data used in this paper stem from their intervention. Since the Seguro Popular Experiment induced a large number of individuals to take up health insurance and collected information on the utilization of preventive care as well as on agents' health and medical expenditures *prior* to treatment, it is exceptionally well suited for studying adverse selection and ex ante moral hazard.[5]

As predicted by theory, the results show that 'high risk' agents are, *ceteris paribus*, more likely to take out insurance—although the insured are not more 'risky' *on average*. That is, despite the absence of a positive correlation between agents' insurance status and proxies of risk, this paper finds evidence of adverse selection. For instance, individuals who rated their health as "bad or very bad" before SP became available are 6.9 percentage points more likely to be induced to purchase health insurance than those in "good or very good" health (compared to an overall treatment effect of 28 percentage points). Curiously, however, agents in the SP experiment sort only on pre-period medical expenditures and subjective well-being. There appears to be no selection on objective measures of health—possibly because individuals are less aware of the latter.

Relying on agents' utilization of preventive medical care as a proxy for self-protection, this paper also demonstrates the existence of considerable ex ante moral hazard. Although the full-cost of preventive care decline as individuals become insured, the effect of health insurance on the utilization of these services is *negative*, non-trivial in size, and statistically significant. Given the positive price effect, such a decline ought to be due to ex ante moral hazard.

The results presented in this paper speak directly to those in the recent literature. Finkelstein and McGarry (2006) present evidence of offsetting multidimensional private information in the market for long-term care insurance; and Fang et al. (2008) show that the insured in the Medigap market spend *less* on health care, which the authors attribute to neutralizing advantageous selection on education and cognitive ability. The present paper identifies risk based sorting from experimental variation, but does not find advantageous selection on education. Although the insured are more educated, the causal effect of education on insurance take up goes in the opposite direction—at least in this very specific setting.

[4] For additional information on SPSS and SP see Frenk et al. (2006).

[5] King et al. (2009b) do not test for adverse selection and do not relate the use of preventive care to ex ante moral hazard.

Unfortunately, the data do not point to other dimensions of private information that would explain why individuals do not appear to be negatively selected on average.

Although insurance coverage had long been predicted to crowd out precautionary effort (cf. Ehrlich and Becker 1972, Pauly 1974), empirical evidence on ex ante moral hazard has hitherto been very sparse. For the health insurance market Zweifel and Manning (2000) review a number of studies estimating the price elasticity of preventive care. They conclude that "the limited available evidence indicates that the demand for preventive care is a declining function of out-of-pocket money price" (p. 420), but that it is unclear whether or not it is more elastic than that for regular ambulatory care.[6] Evidence on the extensive margin is even scarcer. The findings in Card et el. (2008) suggest no reduction in the demand for preventive services due to Medicare coverage, but Klick and Stratman (2007) argue that health insurance coverage is associated with increases in BMI.[7]

Taken at face value the results of this paper have potentially important policy implications. If ex ante moral hazard is indeed a non-trivial force in the market for health insurance, then the welfare consequences of insurance mandates are theoretically ambiguous—even if agents are strongly adversely selected and if preferences were homogenous. Moreover, optimal insurance contracts would not only trade off risk sharing and ex post moral hazard through co-payments (Zeckhauser 1970), but would also have to provide appropriate incentives to engage in precautionary activities. But as self-protection likely resembles the classic multi-task principal-agent problem (Holmström and Milgrom 1991), it is a priori unclear what the optimal incentive scheme might look like.

The remainder of the paper proceeds as follows. Section II provides background information on the health care sector in Mexico as well as on the experiment conducted by King et al. (2007, 2009a). Section III presents the empirical results, and the last section concludes.[8]

II. Background Information and Data Description

A. Institutional Background

The Mexican health care system is characterized by several vertically integrated social security institutions (e.g., IMSS, IMSSTE, PEMEX, SEDENA, etc.).[9] They provide health insurance and medical care to workers in the formal sector of the economy as well as to their dependents. Generally, facilities run by a social security provider offer free treatment to any of its affiliates. Membership in these

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[6] For estimates from the RAND Health Insurance Experiment see Lillard et al. (1986) and Newhouse et al. (1993).

[7] In other markets the evidence on ex ante moral hazard has been ambivalent as well. Exploiting dynamic changes in the incentive structure, Abbring et al. (2003) fail to reject the null of no moral hazard in French car insurance data, but Abbring et al. (2008) find evidence of ex ante moral hazard among Dutch policyholders.

[8] A Data Appendix with the precise definitions and sources of all variables used in the analysis is also provided; and a Technical Appendix contains a formal proof omitted from the body of the paper.

[9] The following summary draws heavily on the description in OECD (2005).

institutions is mandatory for all salaried workers. However, given the size of the informal sector, only about 50% of the Mexican population is covered by the social security system (OECD 2005).

The other half remains without health insurance.[10] The uninsured purchase medical care either in a large, unregulated private market or in (often inadequately funded) public clinics and hospitals. Although clinics operated by the Ministry of Health or State Health Services offer medical care at below full-cost prices, private out-of-pocket payments account for c. 55% of all health related spending in Mexico (OECD 2005). Consequently, catastrophic health expenditures and poverty go often hand in hand.

In January 2004 the Mexican government introduced the System for Social Protection in Health (Sistema de Protección Social en Salud, SPSS). Over a multi-year horizon this reform aims at extending insurance coverage to all workers outside the formal sector, and at improving public health care provision by injecting new resources into the system as well as re-balancing existing transfers from the federal government to the states. Ultimately, SPSS is projected to increase public spending on health care by .8–1.0 percentage points of GDP—roughly 30% of the 2002 level (OECD 2005).[11]

At the heart of the reform is Seguro Popular en Salud (SP), a voluntary health insurance option available to all uninsured and their dependents, irrespective of pre-existing conditions.[12] In order to obtain insurance coverage for over 250 health interventions and more than 300 pharmaceuticals (without any co-pay) families must formally affiliate with SP and pay a small, progressive income based fee.[13] Households in the lowest quintile of the income distribution are exempt from paying premiums. The same is true for participants in the Oportunidades anti-poverty program, who are automatically enrolled in SP by the states.[14]

By the letter of the law every citizen who is not covered by the social security system is allowed to enroll in SP. However, financial and administrative constraints require the program to be rolled out in multiple stages, and only to areas whose health facilities meet a set of minimal requirements. At least in theory, individuals living in regions in which SP has not yet been introduced can travel to the nearest receiving area in order to affiliate. Yet, the benefits of doing so may be rather small in practice, as sick individuals would have to go back there to take advantage of their insurance benefits. It is, therefore, useful to think of the staged introduction of SP as introducing geographic variability in poor families' access to affordable health insurance.

[10] Only 3% of individuals buy private health insurance, many of whom are already affiliated with a social security provider (OECD 2005).
[11] See, for instance, Frenk et al. (2006) for details on SPSS; or Homedes and Ugalde (2009) for a history of health reform in Mexico.
[12] On a much smaller scale SP had existed since 2001.
[13] The services covered by SP treat illnesses accountable for 95% of the disease burden in Mexico (King et al. 2007).
[14] Oportunidades has formerly been known as Progresa. See Attanasio et al. (2011), Gertler (2004), and Todd and Wolpin (2006) for evaluations.

Several observational studies evaluate SP's success in reducing out-of-pocket expenditures and improving access to medical care, generally finding positive effects (e.g., Barros 2008, Bleich et al. 2007, Gakidou et al. 2006, Knox 2008, and Sosa-Rubi et al. 2009). However, King et al. (2007) report that political considerations played an important role in determining which regions received SP first, thereby raising concerns about identifications strategies based on non-experimental variation.

B. Data Description

To assess the effectiveness of SP the Mexican Ministry of Health commissioned a large-scale randomized field experiment implemented and analyzed by King et al. (2007, 2009a, 2009b). They exploit the staged rollout to *experimentally* introduce geographic variation in the availability of SP. All data used in this paper stem from their program evaluation.[15]

In a first step King and coauthors partitioned Mexico into 12,284 "health clusters", defined as the catchment area around an existing or planned health clinic. As 19 of 32 states refused to take part in the evaluation, a subset of 7,078 (5,439 rural and 1,639 urban) clusters remained ultimately eligible for possible participation in the experiment.[16] To assure that the treatment and control group are balanced on observables, eligible health clusters were matched into pairs. Based on closeness of match and likelihood of compliance a subset of 74 pairs was selected to participate; and assignment to the treatment or control group was based on the flip of a fair coin *within* each pair. Figure 1 shows the location of treatment and control clusters.

Concurrent with random assignment (August – September 2005) two baseline surveys collected data on households and health facilities. Besides standard demographic variables and information on the utilization of medical care, the household questionnaire also elicited out-of-pocket expenditures and self-assessed health prior to the intervention. In addition, the data also contain objective measures of individuals' health from anthropomorphic tests administered on site, e.g., BMI, cholesterol level, or systolic blood pressure.

Unfortunately, budget constraints limited the number of clusters in which the household survey could be conducted to 50 pairs. Consequently, the analysis in this paper only uses data on the 32,426 respondents to the household survey with non-missing information on insurance status.

Table 1 displays summary statistics from the baseline survey. Obviously, individuals in the Seguro Popular Experiment are not a random sample of Mexicans. Given that the experiment intentionally focused on rural areas with low insurance coverage, it is not surprising that only 10.6% of participants are

[15] The following description of the experiment borrows heavily from King et al. (2007, 2009a). For additional details the interested readers should consult the aforementioned studies.

[16] King et al. (2007, 2009b) discarded clusters in which a substantial fraction of families had already been affiliated with SP.

urban dwellers, and a mere 21.8% have any health insurance at baseline. Comparing individuals in the Seguro Popular Experiment to the nationally representative sample of the ENSANut 2005 (Encuesta Nacional de Salud y Nutrición), King et al. (2007) report that the demographics of both populations look otherwise very similar.

More importantly, on almost all observable characteristics the treatment and control group appear roughly balanced. Yet, there are two important exceptions. Individuals in the treatment group are more likely than those in the control group to have had a mammogram in the pre-period ($p = .04$) and are more frequently already covered by insurance ($p = .05$). Although true random assignment does not seem implausible (with 2 out of the 33 displayed pairwise comparisons being statistically at the 5% level), the summary statistics in Table 1 suggest that it might nevertheless be important to account for chance differences at baseline. To this end Section IV.C performs a series of robustness checks finding little indication that the results reported in this paper are driven by such differences.

Actual treatment consisted in a local media campaign to inform families about the benefits of SP and to encourage them to enroll, as well as in setting up a 'service and orientation stand' (Módulo de Atención y Orientación) in each treatment cluster so citizens could formally affiliate with SP. Moreover, states attempted to improve health facilities, the availability of drugs, and to hire additional medical personnel.

King et al. (2009a), however, argue that, while the no-charge policy became effective immediately after affiliation, the assessment period of 10 months was likely too short for states' efforts to enhance the existing infrastructure to take effect. For instance, increasing the supply of pharmaceuticals required an open bidding process that took 6–8 months to complete. Similar arguments surely apply to building and accrediting new medical facilities, and to training additional personnel. Therefore, it seems unlikely that access to health care and the quality thereof improved significantly relative to control group.[17]

In order to assess SP's effect on households' medical expenditures and utilization of services, a follow-up survey successfully re-interviewed 29,897 of the original households during July and August 2006, i.e. approximately 10 months after random assignment.

Table 2 displays individuals' insurance status by experimental assignment and period. The last column shows difference-in-differences estimates (and their standard errors) for each health insurance option. As intended, treatment significantly increased the share of insured individuals relative to the control group, in particular the share of SP affiliates. The estimates in Table 2 also suggest a lack of substitution effects—possibly due to the short duration after treatment. That is, there is no evidence that a significant number of previously insured individuals left their provider and affiliated with SP instead.

[17] After the intervention 69.1% of respondents in the treatment group report being satisfied with the services of their health care provider. The corresponding value for the control group is 68.9%.

The fact that the Seguro Popular Assessment induced experimental variation in access to health insurance for the poor, coupled with rich pre-period information makes it ideally suited for studying adverse selection and ex ante moral hazard.

III. Adverse Selection and Ex Ante Moral Hazard: Experimental Estimates

A. Adverse Selection

In particular, the Seguro Popular Experiment admits an unusually clean test for adverse selection. Since SP draws almost exclusively from the pool of uninsured individuals and the data contain health status and out-of-pocket medical expenditures prior to the intervention, it is not necessary to rely on the commonly used 'positive correlation test' (Chiappori and Salanié 2000). Instead of inferring (the absence of) selection from the contemporaneous correlation between insurance status and realized expenditures (which, as is well known, does not rule out moral hazard), the Seguro Popular Experiment allows to test for adverse selection by relating insurance take up in the post-period to a proxy for an individual's inherent risk collected in the pre-period. Intuitively, if adverse selection were important, one would expect a disproportionate number of 'high risk' agents to affiliate with SP as it is being rolled out. While it is, of course, important to know whether the insured are *on average* more risky than the uninsured, a clean test of the theory requires isolating the *causal* effect of an individual's risk type. Moreover, knowledge of the causal effect (as opposed to the mere presence) of adverse selection allows an assessment of whether selection is *quantitatively* important.

To this end, consider the following empirical framework:

$$(1) \qquad h_{i,T} = \alpha + \rho X_{i,T-1} + \beta TREATMENT_{i,T} + \gamma TREATMENT_{i,T} X_{i,T-1} + \boldsymbol{Q}_{i,T}{}'\boldsymbol{\xi} + \epsilon_{i,T},$$

where $TREATMENT_{i,T}$ indicates whether individual i has received treatment at time T, $X_{i,T-1}$ is a pre-treatment proxy for i's inherent 'riskiness', and $h_{i,T}$ denotes her health insurance status in the post-period.[18] $\boldsymbol{Q}_{i,T}$ is a vector of baseline controls containing: gender, age, educational achievement, total household expenditures, a proxy for asset holdings, the number of doctors and nurses in the area, as well as indicator variables for whether the household participates in Oportunidades, whether it is located in an urban area, and whether individual i belongs to Mexico's indigenous population.[19] Covariates are included to improve precision and to account for chance differences between treatment and control group.

Despite the inclusion of $\boldsymbol{Q}_{i,T}$, the error term $\epsilon_{i,T}$ is almost certainly not orthogonal to any $X_{i,T-1}$. For instance, risk aversion and an individual's 'risk type' might not only be correlated with insurance status,

[18] That is, $h_{i,T}$ is equal to one if i is covered by any health insurance at the time of the follow-up survey and zero otherwise.

[19] The Data Appendix provides a description of all controls.

but also with each other (cf. Cohen and Einav 2007, Finkelstein and McGarry 2006). Therefore, $\hat{\rho}_{OLS}$ is not well identified and cannot be used to test the effect of X_i on insurance status. Depending on the correlation between $\epsilon_{i,T}$ and $X_{i,T-1}$, a naïve test of whether 'high risk' agents are more likely to be insured might produce both Type I and Type II errors.

However, γ in equation (1) *is* well identified in the sense that $plim\ \hat{\gamma}_{OLS} = \gamma$. To gain some (crude) intuition, recall that only variation in $TREATMENT_{i,T}X_{i,T-1}$ that is orthogonal to $X_{i,T-1}$ identifies $\hat{\gamma}_{OLS}$. But such variation must come from the interaction with $TREATMENT_{i,T}$, which is by construction independent of the error term. Recognizing this, it is straightforward to show that the residual variation in $TREATMENT_{i,T}X_{i,T-1}$ is uncorrelated with $\epsilon_{i,T}$ as well, and that $\hat{\gamma}_{OLS}$ is consistent.[20]

Consequently, $\hat{\gamma}_{OLS}$ identifies differences in treatment effects between individuals of different risk types. In the context of the Seguro Popular Experiment, the least squares estimate of γ indicates whether 'high risk' individuals are more likely than their 'low risk' counterparts to take up health insurance as it becomes available (independent of other unobserved characteristics). Hence, $\hat{\gamma}_{OLS}$ *can* be used to test for adverse selection on X_i alone.

Tables 3, 4, and 6 display estimates of specification (1) using different pre-period proxies for agents' inherent 'riskiness': out-of-pocket health expenditures, self-assessed well-being, and a set of objective measures of health. The rational underlying the choice of these proxies is that agents with high medical expenditures or those in poor health before the introduction of SP are also more likely to incur adverse health shocks afterwards, and can therefore be considered 'more risky'.

The right column in Table 3 shows that individuals who assessed their own health as 'good or very good' on the baseline survey are 4.8 and 5.5 percentage points less likely to be induced to purchase health insurance than their counterparts in 'fair' and 'bad or very bad' health, respectively. These estimates are large in a real world sense—especially when compared to SP's treatment effect; and they are statistically significant at conventional levels.

Using pre-period health expenditures as a proxy for $X_{i,T-1}$, Table 4 provides further evidence of adverse selection. Compared to their counterparts who did not incur any out-of-pocket cost in the month preceding the baseline survey, the treatment effect is 3.7 percentage points larger for individuals with positive medical expenditures.[21] Although the least squares coefficient is fairly large in an economic sense, it is not statistically significant. Upon controlling for pre-period health-insurance status, however, the estimate increases to 4.1 percentage points and becomes marginally significant; and marginal effects estimated using a probit model are almost twice as large in magnitude and are statistically significant (see

[20] A formal proof of this claim is contained in the Technical Appendix.

[21] On the baseline survey approximately 75% of individuals report zero medical expenditures during the last month.

the robustness checks in Section IV.C, in particular Table 5). Thus, the evidence presented in Tables 3 and 4 suggests that SP is associated with a non-negligible degree of adverse selection on risk.

Note, however, that, as shown in the columns on the left, the raw correlation between health insurance status in the post-period and pre-period health assessments, or medical expenditures is negative. That is, individuals who rated themselves as healthier, or who did not incur medical expenditures have a higher propensity to be covered by health insurance after the introduction of SP. At least in principle this could be due multiple dimensions of private information resulting in net advantageous selection (as documented for different markets by Finkelstein and McGarry 2006, and Fang et al. 2008). However, an equally likely explanation in this context is reverse causality, i.e. healthy individuals might have been more likely to have had health insurance at baseline and continue to do so in the post-period.[22]

Given that Fang et al. (2008) report offsetting advantageous selection on education and cognitive ability in the Medigap market, it may be of interest to estimate the causal effect of education on insurance coverage in the Seguro Popular experiment. To this end Table 5 shows estimates of specification (1) replacing $X_{i,T-1}$ with indicator variables for agents' educational achievement. As in Fang et al. (2008), more educated agents are on average more likely to be insured. The causal effect of education on insurance uptake, however, is *negative* and estimated to be very large—at least in this particular context.[23]

Curiously, there is no indication of selection on objective measures of health. Table 6 reports estimates of (1) proxying for agents' riskiness with indicator variables for whether their BMI, cholesterol, blood pressure, or glycated hemoglobin (HbA1c)—a criterion for the diagnosis of diabetes—were within their respective 'normal' range when measured at the time of the baseline survey.[24] Not only are the estimates of γ shown in Table 6 not statistically significant and (with one exception) much smaller in magnitude than their counterparts in Tables 3 and 4, but three of them also carry the 'wrong' sign.

It therefore appears that agents in the Seguro Popular Experiment sort on subjective health assessments, but not on objective ones.[25] One, admittedly unsatisfying, explanation is that the uninsured might not be fully aware of having elevated levels of cholesterol or HbA1c, whereas they *are* mindful of 'how they feel'. In such a world only the latter factor would be used in deciding whether or not to purchase health insurance. In line with this hypothesis is the fact that BMI, blood pressure, cholesterol, and HbA1c explain less than 1% of the variation in self-assessed health, and that King et al. (2007) report

[22] When excluding individuals who were covered by health insurance in the pre-period, the coefficients on $X_{i,T-1}$ are very close to zero and not statistically significant.
[23] This result is not an artifact of highly educated individuals being more likely to have insurance in the pre-period. The point estimates are almost identical when restricting attention to previously uninsured agents.
[24] The ranges considered 'normal' for the purposes of this paper are: 18.5 to 25 kg/m^2 for BMI, less than 120 mmHg for systolic blood pressure, less than 200 mg/dL for cholesterol, and less than 6% for HbA1c (see WHO 2000, and NIH 1998, 2002, 2004).
[25] Recall that premiums only depend on income, but not on health.

individuals in the experiment viewed the medical tests as *incentive* to participate in the survey. However, the evidence in favor of this explanation is only circumstantial.[26]

B. Ex Ante Moral Hazard

Apart from adverse selection the theory of asymmetric information also predicts insurance coverage to crowd out self-protection (cf. Ehrlich and Becker 1972, Pauly 1974). Unfortunately, pure measures of self-protection are rarely available, and the Seguro Popular Experiment is no exception. However, the data do contain information on utilization of preventative medical care, i.e. whether an individual had a flu shot, pelvic exam, pap smear, mammogram, or had her eyes checked within the last year. Despite the fact that the full cost of these services decrease with coverage, the newly insured might still reduce their demand for prevention if ex ante moral hazard is severe enough. Thus, relating insurance status to the utilization of preventive services provides a strong one-sided test for the presence of ex ante moral hazard.[27]

However, with different imperfect measures of self-protection at hand it is important to efficiently aggregate the available information in order to avoid the multiple testing problem and to improve statistical power to detect effects that go in the same direction. One appealing and particularly simple approach is to calculate average standardized treatment effects (ASTE).[28] E.g. for some set of parameter estimates $\{\hat{\varphi}_s\}$ define

$$(2) \qquad ASTE \equiv \frac{1}{|S|} \sum_{s \in S} \frac{\hat{\varphi}_s}{\sigma_s},$$

where S denotes the set of available measures, and σ_s is the standard deviation of outcome $y_{s,i,T}$ in the control group.[29]

Notice, to make effect sizes comparable $ASTE$ standardizes each coefficient, thereby placing more weight on absolute changes in preventive activities with a low standard deviation.[30] Also, in contrast to

[26] Empirically, self-assessed health is a somewhat better predictor of future health care expenditures than BMI, blood pressure, cholesterol, and HbA1c together—although the explained variation is very low in both cases.

[27] It is important to note that King et al. (2009a) do analyze the utilization of preventive care. While they focus on the effect of SP alone, this paper is interested in the effect of having *any* health insurance. Yet, given that both exploit the same source of variation the point estimates with respect to the utilization of individual preventive activities are very similar. However, King et al. (2009a) do not account for the testing of multiple hypothesis. This may explain why they find only insignificant effects of SP on the utilization of preventive care, although each of their point estimates is economically very large. Moreover, King et al. (2009a) do not make the connection between utilization of preventive services and ex ante moral hazard.

[28] I am grateful to Amy Finkelstein for suggesting this approach. Note that it is very similar to the one used by Kling et al. (2007) in evaluating the Moving to Opportunity (MTO) Experiment. Kling et al. (2007) first standardize each outcome variable and then regress the average standardized outcome on treatment assignment.

[29] In calculating standard errors on $ASTE$ one, of course, needs to account for the covariance between individual coefficients. In order to also cluster on the level of randomization, this paper uses the block bootstrap with 1,000 iterations.

other means of aggregating information which produce an index-like measure for *each* individual, i.e. factor or principal component analysis, calculating standardized treatment effects does not require valid information on all outcomes for a given observation (or imputation thereof). In the present context this is particularly attractive, since three measures of self-protection are only relevant to females, i.e. pelvic exams, pap smears, and mammograms.

Of course, testing for ex ante moral hazard requires estimates of the causal effect of insurance coverage. Since coverage is almost certainly endogenous, ordinary least squares estimates are likely biased. However, as the Seguro Popular Experiment induced a considerable fraction of the affected population to purchase health insurance, one would expect the treatment assignment itself to have an impact on the demand for preventive care—if there is a causal effect.

The intent-to-treat (ITT) effect denoted by ϕ_s in (3) captures this simple intuition.

(3) $$y_{s,i,T} = \mu + \phi_s TREATMENT_{i,T} + \boldsymbol{Q}'_{i,t}\boldsymbol{\psi} + \nu_{i,T}.$$

Here s indexes the set of preventive activities listed above, and $y_{s,i,T}$ is an indicator variable for whether individual i engages in s. Therefore, each ϕ_s indicates by how much the treatment group mean changes relative to that of the control group; and the standardized treatment effect expresses the average change over all measures in standard deviation units. Naturally, negative values point towards ex ante moral hazard.

In addition to the effect of treatment on the aggregate demand for preventive care, the causal impact of insurance coverage itself is likely to be of interest as well. Using an individual's experimental assignment as instrumental variable (IV), this effect can be estimated by two-stage least squares (2SLS)—treating whether an agent buys health insurance as endogenous and the variables included in $\boldsymbol{Q}_{i,T}$ as exogenous. The particular model is given by

(4) $$y_{s,i,T} = \kappa + \pi_s h_{i,T} + \boldsymbol{Q}'_{i,T}\boldsymbol{\varsigma} + \eta_{i,T}$$

and the corresponding first stage

(5) $$h_{i,T} = \tau + \delta TREATMENT_{i,T} + \boldsymbol{Q}'_{i,T}\boldsymbol{\chi} + \upsilon_{i,T}.$$

All symbols are as defined above.

If there is heterogeneity in the effect of insurance coverage on the demand for preventive services, as seems likely, then $\hat{\pi}_s$ should be interpreted as local average treatment effect (LATE), i.e. as the change in

[30] Depending on whether one has external information on the relative importance of each s, this may or may not be desirable. In the present case it is not obvious whether, say, forgoing a mammogram or pap smear constitutes more or less meaningful evidence of moral hazard than not getting vaccinated against the flue or missing an eye exam.

utilization for individuals who enroll in SP, but were uninsured before it had been rolled out (Imbens and Angrist 1994).[31]

Table 7 presents estimates of the relationship between insurance coverage and utilization of preventive care. The top row displays average standardized effects. Estimates for each individual measure of self-protection are shown below. The left column contains naïve ordinary least squares (OLS) coefficients, whereas the middle and right column correspond to ITT and LATE estimates (i.e. ϕ and π), respectively.[32]

Strikingly, the standardized effect estimated by OLS is positive, statistically significant, and relatively large. On average, insured individuals demand more preventive care. By contrast, the average standardized ITT and LATE coefficients are negative, statistically significant, and in the latter case about the same magnitude as the one estimated by OLS. That is, the causal effect of insurance goes in the opposite direction. Health insurance coverage induced individuals in the Seguro Popular Experiment to engage in *less* self-protection, indicating the existence of ex ante moral hazard.

Taken at face value the point estimates for individual measures of self-protection support the conclusion drawn above. Every single ITT and LATE estimate is negative, although none of them is statistically significant by itself. However, compared to dependent variable sample means between 5.6% and 29.2% the point estimates (ranging from .8 to 8.2 percentage points) are economically very large.

Recall, since insurance coverage reduces the full-cost of obtaining preventive medical care, these estimates likely understate the true extent of ex ante moral hazard. That is, holding prices equal, one might expect self-protection to decline even more.

C. Robustness and Sensitivity Analysis

As noted before, one potential concern with the results presented so far is that they could be due to chance differences between the treatment and control group. In fact, at baseline individuals in the treatment group were more likely to have had a mammogram, and were more frequently already covered by health insurance (cf. Table 1). While the former difference would work against estimating a reduction in preventive care, pre-existing disparities in insurance status are potentially more troubling. Therefore, this section performs a variety of sensitivity checks to demonstrate that the results are qualitatively robust.

Table 8 probes the sensitivity of the findings with respect to adverse selection into health insurance. The left panel displays results from linear probability models, whereas the right panel accounts for the binary nature of the dependent variable by estimating probit specifications. Entries correspond to γ in

[31] Since the endogenous variable is health insurance status and there are "always takers" in the terminology of Angrist, Imbens, and Rubin (1996), $\hat{\pi}_s$ should not be interpreted as the effect of treatment-on-the-treated (TOT).
[32] When appropriate the sample has been limited to females.

equation (1), or the associated marginal effects, for all seven pre-period proxies of individuals' 'riskiness'. The rightmost column within each set shows point estimates controlling for the set of baseline controls as well as for health insurance status in the pre-period, and the middle column contains estimates without any controls. For comparison, the coefficients obtained by controlling for $\boldsymbol{Q}_{i,T}$ only, i.e. those analogous to the ones in Tables 3-6, are shown in the leftmost column. While there do exist differences, it appears that $\hat{\gamma}$ does not depend too much on the mode of estimation or the set of covariates—although marginal effects estimated by probit are generally even larger than their OLS counterparts.

Controlling only for $\boldsymbol{Q}_{i,T}$, Table 9 shows least squares estimates of γ for different subsamples of the data. With three exceptions all coefficients carry the expected sign, i.e. are positive, when self-rated health or pre-period health expenditures are used to proxy for risk. Although the point estimates are not very precise, most coefficients are of roughly similar magnitude suggesting that the results are not driven by one particular group of individuals. With 20 out of 56 entries being negative when objective health indicators are used to proxy for risk, there is again no clear indication of selection along this dimension—as was the case in Table 6.

The sensitivity of the results with respect to ex ante moral hazard is investigated next. Varying the set of controls and the amount of data used in the estimation the columns on the left in Table 10 display average standardized treatment effects, whereas the columns on the right follow Kling et al.'s (2007) evaluation of the Moving to Opportunity Experiment and use z-scores as indices of self-protection.[33] The upper panel contains estimates from cross-sectional models akin to equations (3) and (4), whereas the lower panel shows coefficients from panel data models including pre-period observations. Going top to bottom within each panel the set of included controls steadily grows.

All cross-sectional point estimates are reasonably close to one another, and, if anything, increase in magnitude after controlling for individuals' health insurance status and the outcome in the pre-period—independently of whether one calculates ASTEs or z-scores. To a lesser extent this also holds for the entries in the lower panel. After controlling for time specific effects common to all individuals by including period fixed effects, the panel data estimates are very similar to their cross-sectional counterparts. It ought to be noted though that including individual fixed effects reduces the ITT and LATE point estimates somewhat, and renders them statistically insignificant. However, they continue to be quite large in an economic sense. It is unclear whether the reduction in the estimates is due to a lack in residual variation—as evidenced by a substantial increase in the standard error—or to true underlying

[33] If every individual had valid information on all five preventive activities and without regression adjustment for covariates both methods would yield identical point estimates. The point estimates in Table 10 are similar in magnitude when using factor analysis to calculate indices of self-protection, but they are in most cases not statistically significant, or only marginally so, since missing information does not allow these indices to be calculated for a large number of individuals.

differences between the treatment and control group. The fact that the cross-sectional estimates *increase* after controlling for pre-period outcomes and insurance status suggests that loss in precision might be an important factor.

Average standardized treatment effects for various subsamples of the data are shown in Table 11. In almost all cases do the coefficients carry the expected sign and are of similar magnitude as in Table 4. While large standard errors prevent sharp conclusions, there is some suggestive evidence that ex ante moral hazard is stronger among females.[34]

Broadly summarizing, the sensitivity analysis in this subsection suggests that the main results of this paper are qualitatively robust. This may help to alleviate concerns about chance differences between the treatment and control group.

IV. Conclusion

Ever since the seminal contributions of Arrow (1963), Akerlof (1970) as well as Rothschild and Stiglitz (1976) have economists been keenly aware of the possibility of market failure due to asymmetric information. Yet, empirical evidence in favor of these models has been mixed and often not been able to separate (ex post) moral hazard from adverse selection.

Using data from a large-scale randomized field experiment in Mexico, this paper exploits experimental variation in the availability of health insurance to document sorting based on risk, holding all else equal. Moreover, the paper demonstrates the existence of non-negligible ex ante moral hazard; thereby adding to the sparse empirical evidence on the impact of insurance coverage on self-protection.

Although one ought to be cautious not to overemphasize results from this very specific population, these findings have potentially important policy implications. In the presence of ex ante moral hazard the welfare consequences of health insurance mandates are theoretically ambiguous, even if agents are adversely selected. Furthermore, optimal insurance contracts would not only trade off risk sharing and ex post moral hazard through co-payments, but would also need to provide appropriate incentives to engage in self-protection. Naturally, the effectiveness of the latter depends crucially on the ability of the insurer to observe precautionary activities, such as individuals' utilization of preventive care. But at the same time, self-protection likely shares many features with the classic multi-tasking problem (Holmström and Milgrom 1991). This means that the optimal incentive scheme is far from obvious, as it will also depend

[34] The larger point estimates for females are not an artifact from changing the set of outcomes. The coefficients are very similar when restricting attention to Flu Shot and Eye Exam only.

on the substitutability of various precautionary activities, whether any of them carry externalities—as flu shots do—and on how much any reduction in self-protection increases ex post cost.[35]

Technical Appendix

CLAIM: Consider the data generating process

$$h_i = \alpha_0 + \rho_0 X_i + \beta_0 Z_i + \gamma_0 Z_i X_i + \epsilon_i.$$

If Z_i is independently distributed of (X_i, ε_i) and the usual full rank condition is satisfied, then the ordinary least squares estimate of γ_0 is well identified. That is, $plim\ \hat{\gamma}_{OLS} = \gamma_0$.

PROOF: The Frisch-Waugh Theorem (Frisch and Waugh 1933) implies that

$$(A.1) \quad plim\ \hat{\gamma}_{OLS} = \gamma_0 + \frac{Cov(\widetilde{Z_\iota X_\iota}, \varepsilon_i)}{Var(\widetilde{Z_\iota X_\iota})},$$

where $\widetilde{Z_\iota X_\iota}$ denotes the residual from projecting $Z_i X_i$ onto the vector $[1 \quad X_i \quad Z_i]$. With (A.1) in hand, it suffices to show that $Cov\left(\widetilde{Z_\iota X_\iota}, \varepsilon_i\right) = 0$.

From the definition of $\widetilde{Z_\iota X_\iota}$ and using the Frisch-Waugh Theorem again one obtains:

$$\begin{aligned} Cov\left(\widetilde{Z_\iota X_\iota}, \varepsilon_i\right) &= Cov\left(Z_i X_i - \zeta - \tfrac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)} X_i - \tfrac{Cov(Z_i X_i, \tilde{Z}_i)}{Var(\tilde{Z}_i)} Z_i, \varepsilon_i\right) \\ &= Cov\left(\left(Z_i - \tfrac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)}\right) X_i, \varepsilon_i\right), \end{aligned}$$

where $\zeta = \mathbb{E}[Z_i X_i] - \frac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)} \mathbb{E}[X_i] - \frac{Cov(Z_i X_i, \tilde{Z}_i)}{Var(\tilde{Z}_i)} \mathbb{E}[Z_i]$, and $\tilde{X}_i$ $(\tilde{Z}_i)$ corresponds to the residual form projecting X_i (Z_i) onto Z_i (X_i) and a constant.

By applying the definition of the covariance and the Law of Iterated Expectations it follows that

$$\begin{aligned} Cov\left(\left(Z_i - \tfrac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)}\right) X_i, \varepsilon_i\right) &= \mathbb{E}\left[\left(Z_i - \tfrac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)}\right) X_i \varepsilon_i\right] - \mathbb{E}\left[\left(Z_i - \tfrac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)}\right) X_i\right] \mathbb{E}[\varepsilon_i] \\ &= \left(\mathbb{E}[Z_i] - \tfrac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)}\right) \mathbb{E}[X_i \varepsilon_i], \end{aligned}$$

since Z_i is independent of (X_i, ε_i) and $\mathbb{E}[\varepsilon_i] = 0$.

Note that as Z_i is independent of X_i, $\widetilde{X_\iota}$ simply corresponds to the deviation of X_i from its mean. Consequently,

$$\frac{Cov(Z_i X_i, \tilde{X}_i)}{Var(\tilde{X}_i)} = \frac{Cov(Z_i X_i, X_i)}{Var(X_i)} = \frac{\mathbb{E}[Z_i X_i^2] - \mathbb{E}[Z_i X_i]\mathbb{E}[X_i]}{Var(X_i)} = \mathbb{E}[Z_i] \frac{\mathbb{E}[X_i^2] - \mathbb{E}[X_i]^2}{Var(X_i)} = \mathbb{E}[Z_i].$$

This shows that $Cov\left(\widetilde{Z_\iota X_\iota}, \varepsilon_i\right) = 0$, as desired. ■

[35] Unfortunately, the assessment period of 10 months in the Seguro Popular Experiment was too short to test whether the reduction in preventive care manifested itself in higher rates of risk occurrence.

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Data Appendix to
"Adverse Selection and Moral Hazard Among the Poor:
Evidence from a Randomized Experiment"

All data used in this paper stem from the Seguro Popular Assessment by King et al. (2007, 2009a, 2009b). This appendix provides a description of the key variables used in the analysis. For a detailed description of the experimental design beyond that in Section II.B the interested reader should consult King et al. (2007, 2009a).

A. Outcome Variables

Health Insurance is an indicator variable equal to one if (on the first section of the household survey) the respondent reports to be covered by any health insurance, and zero otherwise. The variable is available on for pre- and post-period.

BMI is defined as the respondent's weight (in kilograms) over her squared height (in meters). Weight and height were both elicited together with other socio-demographic characteristics during the pre- and post-period household surveys. A person's BMI is said to be outside its normal range if it exceeds 25 kg/m^2 or is lower than 18 kg/m^2 (cf. NIH 1998, WHO 2000).

Blood Pressure is the mean of two systolic blood pressure measurements conducted at the beginning and at the end of the household survey, respectively. A person's systolic blood pressure is defined to be outside its normal range if it exceeds 120 mmHg (cf. NIH 2004). The variable is available for the pre- and post-period.

Cholesterol is a respondent's cholesterol level in mg/dL, as measured at the end of the household survey. A person's cholesterol is defined to be outside its normal range if it exceeds 200 mg/dL (cf. NIH 2002). The variable is available for the pre- and post-period.

HbA1c is a respondent's level of glycated hemoglobin (in percent), as measured at the end of the household survey. HbA1c is an indicator of blood sugar levels over the last couple of months, and thus often used in the diagnosis of diabetes. A person's HbA1c level is defined to be outside its normal range if it exceeds 6% (cf. NIH 1998). The variable is available for the pre- and post-period.

Flu Shot is an indicator variable equal to one if (on the household survey) the respondent reports to have been vaccinated against the flu within the last 12 months, and zero otherwise. The variable is available for the pre- and post-period.

Pelvic Exam is an indicator variable equal to one if (on the household survey) the respondent reports to have had a pelvic examination within the last 12 months, and zero otherwise. The variable is available for the pre- and post-period, but only for females.

Pap Smear is an indicator variable equal to one if (on the household survey) the respondent reports to have had a pap smear test within the last 12 months, and zero otherwise. The variable is available for the pre- and post-period, but only for females.

Mammogram is an indicator variable equal to one if (on the household survey) the respondent reports to have had a mammography within the last 12 months, and zero otherwise. The variable is available for the pre- and post-period, but only for females.

Eye Exam is an indicator variable equal to one if (on the household survey) the respondent reports to have had her eyes examined by a health care professional within the last 12 months, and zero otherwise. The variable is available for the pre- and post-period.

B. Independent Variables

Self-Assessed Health corresponds to a respondent's answer to the question "In general, how would you rate your health today?" The set of possible answers consisted of: "very good", "good", "fair", "bad", "very bad". This paper combines the first two and the last two answer choices, respectively, to form a set of three indicator variables. These variables are available for the pre- and post-period.

Health Expenditures is defined as the household's expenditures on "health care costs, excluding travel expenses related to seeking health care and any reimbursement of health insurance" (in pesos) during the last month. The variable is available on for pre- and post-period.

Gender is an indicator variable equal to one if the respondent is female, and zero otherwise.

Age is the respondent's age (in years), as indicated on the household survey.

Educational Achievement encompasses four indicator variables capturing the respondent's formal education, as reported on the post-period household survey. The categories considered in this paper are: 'primary school or less', 'completed middle school', 'completed high school', and 'at least some post-secondary education'.

Total Household Expenditures is defined as the household's total expenditures (in pesos) during the last month. This variable is available for the pre- and post-period.

High Asset Holdings is defined as an indicator variable equal to one if the household has at least half of the following 'items', and zero otherwise: a cement or tile floor, electricity, a washing machine, a gas stove, a refrigerator, a phone, a TV set, a computer, or a second home. This variable has been created by King et al. (2009a), and is available on the pre- and post-period period.

Number of Doctors gives the number of doctors in a particular health cluster prior to the intervention.

Number of Nurses gives the number of nurses in a particular health cluster prior to the intervention.

Oportunidades is an indicator variable equal to one if the respondent's household participated in the Opotunidades anti-poverty program, and zero otherwise. The variable is available on the pre- and post-period survey. Opotunidades has formerly been known as Progresa.

Urban is an indicator variable equal to one if the respondent's household is located in an urban health cluster, and zero otherwise.

Indigenous is an indicator variable equal to one if (on the pre-period household survey) the respondent reports speaking one of Mexico's indigenous languages or dialects, and zero otherwise.

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Figure 1: Location of Treatment and Control Clusters

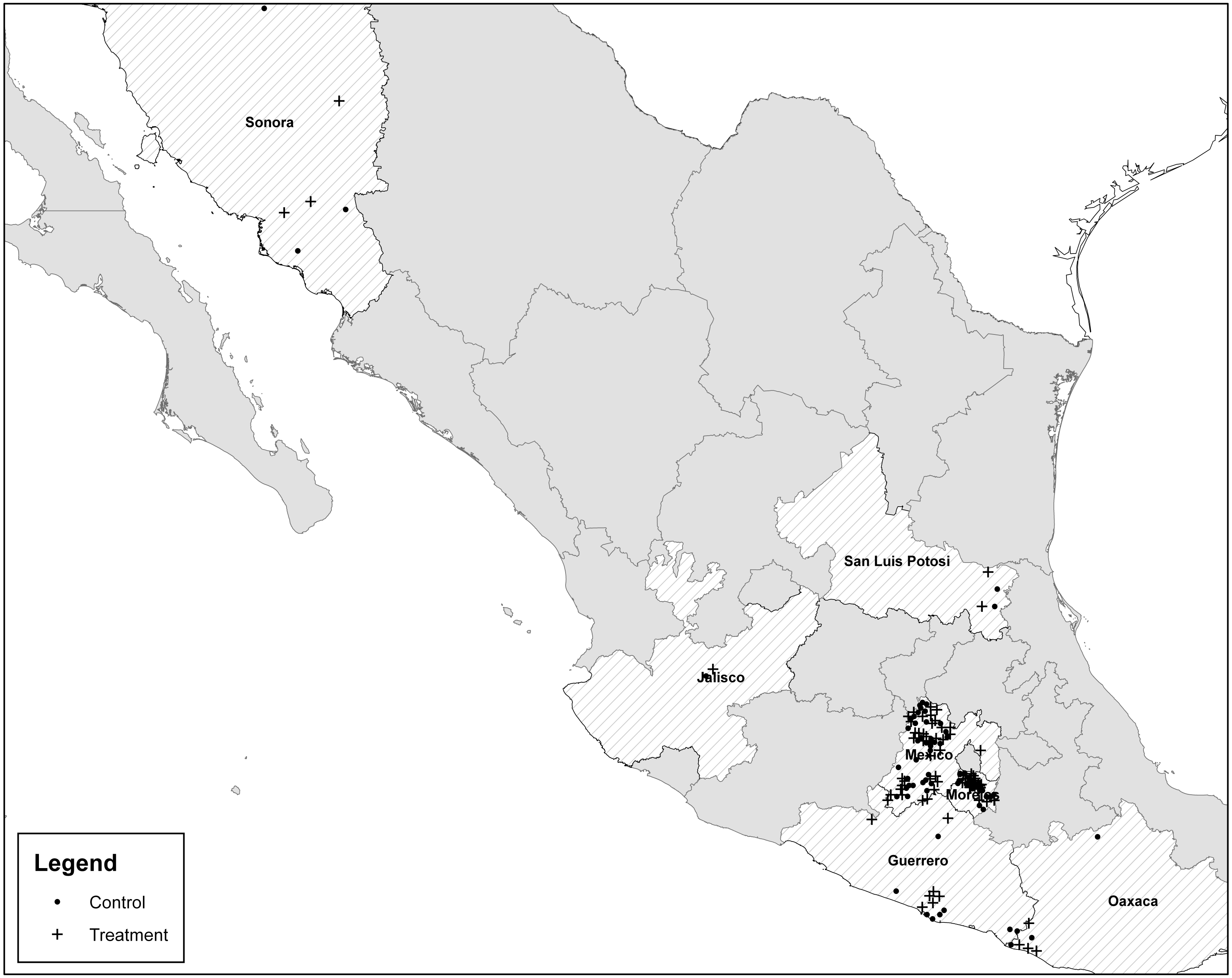

Table 1: Pre-Period Summary Statistics

	Full Sample		Treatment Group		Control Group		p-value
	Mean	SD	Mean	SD	Mean	SD	Treatment = Control
Demographics:							
Female	.620	(.485)	.627	(.483)	.613	(.487)	.21
Age	42.24	(16.75)	42.36	(16.72)	42.13	(16.78)	.69
Indigenous	.060	(.236)	.064	(.244)	.057	(.231)	.82
Urban	.106	(.308)	.109	(.312)	.103	(.303)	.92
Oportunidades	.451	(.498)	.458	(.498)	.445	(.497)	.81
Education:							
Less than Primary School	.446	(.497)	.442	(.497)	.451	(.498)	.76
Primary School School	.246	(.430)	.239	(.427)	.252	(.434)	.27
Incomplete Secondary School	.193	(.395)	.195	(.396)	.191	(.393)	.76
Seondary School	.049	(.216)	.051	(.219)	.048	(.213)	.76
Post-Secondary Schooling	.066	(.248)	.073	(.261)	.059	(.235)	.33
Household Characteristics:							
Household Size	4.085	(2.201)	4.132	(2.232)	4.039	(2.166)	.33
High Asset Household	.546	(.498)	.558	(.497)	.535	(.499)	.63
Annualized Household Expenditures	36,159	(46,047)	37,035	(45,803)	35,283	(46,986)	.54
Annualized Expenditures on Health Care	1,483	(6,303)	1,492	(6,115)	1,473	(6,487)	.92
Health Insurance Status:							
Any Health Insurance	.218	(.413)	.255	(.436)	.181	(.385)	.05
Obligatory Health Insurance	.154	(.361)	.167	(.373)	.140	(.347)	.35
Voluntary Health Insurance	.070	(.255)	.093	(.290)	.047	(.213)	.07
Self-Rated Health:							
Very Good or Good	.573	(.495)	.583	(.493)	.564	(.496)	.35
Fair	.371	(.483)	.364	(.481)	.379	(.485)	.43
Bad or Very Bad	.055	(.228)	.053	(.223)	.058	(.232)	.32
Objective Health Measures:							
BMI (kg/m^2)	26.03	(5.18)	26.02	(5.04)	26.03	(5.30)	.96
Systolic Blood Pressure (mmHg)	125.4	(18.9)	125.6	(19.3)	125.2	(18.6)	.49
Cholesterol (mg/dL)	176.1	(27.6)	174.9	(27.3)	177.3	(27.9)	.25
HbA1c (%)	6.062	(1.328)	6.100	(1.346)	6.023	(1.307)	.25
Preventive Care:							
Flu Shot	.185	(.388)	.174	(.379)	.196	(.397)	.21
Pelvic Exam	.222	(.416)	.212	(.409)	.233	(.423)	.34
Pap Smear	.292	(.455)	.289	(.453)	.295	(.456)	.80
Mammogram	.056	(.230)	.064	(.244)	.048	(.214)	.04
Eye Exam	.108	(.310)	.110	(.313)	.106	(.307)	.65
Other Medical Utilization Within Last Year:							
Outpatient Care	.518	(.500)	.513	(.500)	.522	(.499)	.67
Hospitalized	.069	(.254)	.070	(.255)	.069	(.254)	.95
Medical Staff:							
Number of Doctors	1.645	(1.719)	1.597	(1.319)	1.721	(2.040)	.67
Number of Nurses	1.581	(2.306)	1.422	(1.360)	1.739	(2.956)	.51
Number of Observations	32,426		16,214		16,212		
Number of Clusters	100		50		50		

Notes: Entries are means and standard deviations of pre-period data for those individuals with non-missing information on insurance status. The right column displays p-values from testing the equality of means in the treatment and control group. See the Data Appendix for a precise definition of each variable.

Table 2: Health Insurance Status in the Seguro Popular Experiment

	Control Group		Treatment Group		
	Pre-Period	Post-Period	Pre-Period	Post-Period	Diff-in-Diff
Any Health Insurance:	.181	.212	.255	.561	.276
	(.023)	(.026)	(.029)	(.026)	(.037)
Obligatory Health Insurance:	.140	.130	.167	.156	-.001
	(.018)	(.017)	(.022)	(.020)	(.009)
IMSS	.097	.089	.107	.100	.001
	(.014)	(.012)	(.017)	(.015)	(.007)
IMSSTE	.025	.025	.032	.031	-.001
	(.005)	(.005)	(.006)	(.006)	(.003)
PEMEX	.000	.000	.000	.001	.000
	(.000)	(.000)	(.000)	(.000)	(.000)
SEDENA	.002	.001	.001	.002	.001
	(.001)	(.000)	(.000)	(.001)	(.001)
MARINA	.000	.000	.002	.001	-.000
	(.000)	(.000)	(.001)	(.000)	(.001)
Other	.015	.013	.025	.022	-.001
	(.003)	(.003)	(.006)	(.005)	(.002)
Voluntary Health Insurance:	.047	.087	.093	.413	.280
	(.011)	(.021)	(.022)	(.035)	(.035)
Seguro Popular	.030	.053	.077	.393	.292
	(.011)	(.015)	(.021)	(.035)	(.032)
Private	.005	.003	.004	.002	.002
	(.002)	(.001)	(.001)	(.001)	(.001)
IMSS voluntarily	.005	.003	.003	.003	.002
	(.001)	(.001)	(.001)	(.001)	(.001)
Other	.008	.029	.009	.014	-.017
	(.002)	(.012)	(.005)	(.004)	(.014)

Notes: Entries denote the fraction of individuals who report being affiliated with different health insurance options, by treatment assignment and period. Standard errors are clustered on the level of randomization and reported in parentheses. The right column displays difference-in-differences estimates and the corresponding standard errors. Note that the categories are not mutually exclusive.

Table 3: Selection on Subjective Health

	Post-Period Health Insurance Status	
Self-Rated Health in Pre-Period:		
In Fair Health	-.013	-.040
	(.009)	(.013)
In Bad or Very Bad	-.041	-.075
	(.016)	(.022)
Treatment	.344	.319
	(.035)	(.037)
Treatment × In Fair Health		.056
		(.019)
Treatment × In Bad or Very Bad Health		.069
		(.031)
Baseline Controls	Yes	Yes
R-Squared	.174	.175
Number of Observations	28,247	28,247

Notes: Entries are coefficients and standard errors from estimating equation (1) by ordinary least squares with individuals' subjective health assessments proxying for risk. The omitted category is 'good or very good health'. Heteroskedasticity robust standard errors are clustered on the level of randomization and reported in parentheses. In addition to the variables shown in the table, indicator variables for missing values on each covariate are also included in the regressions. See the Data Appendix for the precise definition and source of each variable.

Table 4: Selection on Health Expenditures

	Post-Period Health Insurance Status	
Positive Pre-Period Health Expenditures	-.043	-.062
	(.013)	(.018)
Treatment	.344	.335
	(.035)	(.038)
Treatment × Positive Pre-Period Health Expenditures		.037
		(.029)
Baseline Controls	Yes	Yes
R-Squared	.173	.173
Number of Observations	28,394	28,394

Notes: Entries are coefficients and standard errors from estimating equation (1) by ordinary least squares with an indicator variable for whether an individual incurred positive medical expenditures in the pre-period proxying for risk. Heteroskedasticity robust standard errors are clustered on the level of randomization and reported in parentheses. In addition to the variables shown in the table, indicator variables for missing values on each covariate are also included in the regressions. See the Data Appendix for the precise definition and source of each variable.

Table 5: Selection on Education

	Post-Period Health Insurance Status	
Educational Achievement:		
Completed Middle School	.040	.082
	(.014)	(.020)
Completed High School	.077	.169
	(.023)	(.030)
Post-Secondary Schooling	.217	.356
	(.022)	(.031)
Treatment	.345	.383
	(.035)	(.038)
Treatment × Completed Middle School		-.084
		(.028)
Treatment × Completed High School		-.179
		(.047)
Treatment × Post-Secondary Schooling		-.252
		(.047)
Baseline Controls	Yes	Yes
R-Squared	.173	.178
Number of Observations	28,221	28,221

Notes: Entries are coefficients and standard errors from estimating equation (1) by ordinary least squares with individuals' replacing the risk proxy. The omitted category is 'primary school or less'. Heteroskedasticity robust standard errors are clustered on the level of randomization and reported in parentheses. In addition to the variables shown in the table, indicator variables for missing values on each covariate are also included in the regressions. See the Data Appendix for the precise definition and source of each variable.

Table 6: Selection on Objective Health Measures

A. Pre-Period BMI

	Post-Period Health Insurance Status	
BMI Within Normal Range	-.017	-.020
	(.008)	(.009)
Treatment	.336	.334
	(.034)	(.033)
Treatment × BMI Within Normal Range		.005
		(.017)
Baseline Controls	Yes	Yes
R-Squared	.168	.168
Number of Observations	19,292	19,292

B. Pre-Period Systolic Blood Pressure

	Post-Period Health Insurance Status	
Blood Pressure Within Normal Range	-.010	-.018
	(.007)	(.010)
Treatment	.346	.339
	(.035)	(.035)
Treatment × Blood Pressure Within Normal Range		.016
		(.014)
Baseline Controls	Yes	Yes
R-Squared	.174	.174
Number of Observations	28,092	28,092

C. Pre-Period Cholesterol

	Post-Period Health Insurance Status	
Cholesterol Within Normal Range	-.005	.003
	(.016)	(.022)
Treatment	.357	.372
	(.034)	(.043)
Treatment × Cholesterol Within Normal Range		-.019
		(.032)
Baseline Controls	Yes	Yes
R-Squared	.176	.176
Number of Observations	23,217	23,217

D. Pre-Period HbA1c

	Post-Period Health Insurance Status	
HbA1c Within Normal Range	.012	-.015
	(.014)	(.020)
Treatment	.364	.330
	(.035)	(.040)
Treatment × HbA1c Within Normal Range		.053
		(.029)
Baseline Controls	Yes	Yes
R-Squared	.185	.186
Number of Observations	13,398	13,398

Notes: Entries are coefficients and standard errors from estimating equation (1) by ordinary least squares with different anthropometric measures of health proxying for risk. Heteroskedasticity robust standard errors are clustered on the level of randomization and reported in parentheses. In addition to the variables shown in the table, indicator variables for missing values on each covariate are also included in the regressions. See the Data Appendix for the precise definition and source of each variable.

Table 7: The Impact of Insurance Coverage on Utilization of Preventive Care

	Pre-Period	Post-Period	
	OLS	ITT	LATE
Standardized Effect	.145	-.047	-.132
	(.022)	(.024)	(.067)
Witin Last Year:			
Flu Shot	.073	-.022	-.065
	(.012)	(.019)	(.056)
Pelvic Exam	.040	-.020	-.054
	(.014)	(.021)	(.058)
Pap Smear	.070	-.030	-.082
	(.017)	(.020)	(.054)
Mammogram	.033	-.009	-.025
	(.007)	(.006)	(.016)
Eye Exam	.045	-.008	-.024
	(.008)	(.008)	(.024)

Notes: Entries are least squares estimates of the effect of insurance coverage on the utilization of preventive care. The left column displays naïve ordinary least squares estimates, whereas the columns on the right contain ITT and LATE estimates corresponding to ϕ and π in equations (3) and (4), respectively. Average standardized treatment effects are reported in the top row, and estimates for each individual preventive activity are shown below. Bootstrapped standard errors are clustered on the level of randomization and reported in parentheses. All regressions contain the baseline set of covariates as well as indicator variables for missing values on each covariate. See the Data Appendix for the precise definition and source of each variable.

Table 8: Robustness and Sensitivity of Selection Results

	I. Linear Probability Model Coefficient on Interaction Term			*II. Probit* Coefficient on Interaction Term		
Self-Rated Health in Pre-Period:						
In Fair Health	.056	.051	.048	.068	.063	.062
	(.019)	(.019)	(.017)	(.023)	(.022)	(.024)
In Bad or Very Bad Health	.069	.060	.055	.087	.081	.076
	(.031)	(.032)	(.025)	(.039)	(.039)	(.036)
Positive Pre-Period Health Expenditures	.037	.044	.041	.068	.074	.071
	(.029)	(.031)	(.024)	(.034)	(.036)	(.034)
Objective Health Indicator Within Normal Range:						
Pre-Period BMI	.005	.005	.007	.015	.013	.012
	(.017)	(.017)	(.013)	(.019)	(.020)	(.018)
Pre-Period Cholesterol	-.019	-.020	-.018	-.016	-.016	-.021
	(.032)	(.031)	(.025)	(.038)	(.036)	(.034)
Pre-Period Systolic Blood Pressure	.016	.014	.020	.026	.022	.030
	(.013)	(.014)	(.011)	(.016)	(.017)	(.017)
Pre-Period HbA1c	.053	.049	.041	.066	.057	.052
	(.029)	(.028)	(.025)	(.041)	(.033)	(.035)
Educational Achievement:						
Completed Middle School	-.084	-.087	-.071	-.096	-.092	-.080
	(.028)	(.028)	(.024)	(.031)	(.031)	(.032)
Completed High School	-.179	-.192	-.190	-.184	-.188	-.209
	(.047)	(.048)	(.039)	(.038)	(.038)	(.033)
Post-Secondary Schooling	-.252	-.257	-.250	-.236	-.234	-.249
	(.047)	(.055)	(.039)	(.031)	(.036)	(.029)
Baseline Controls	Yes	No	Yes	Yes	No	Yes
Pre-Period Health Insurance Status	No	No	Yes	No	No	Yes

Notes: Entries denote estimates of γ in equation (1), or the corresponding marginal effects, for various proxies of risk and different sets of covariates. Results using linear probability models are shown in the panel on the left, whereas the right panel contains marginal effects estimated from probit models. The leftmost column within each set contains estimates analogous to those in Tables 3-6, i.e. controlling only for the baseline covariates. The middle column displays coefficients without controlling for any other observables, and the rightmost column controls for health insurance status in the pre-period as well as for the baseline covariates. The respective risk proxy is listed on the left of each row. Standard errors are clustered on the level of randomization and reported in parentheses. All regressions contain indicator variables for missing values on each covariate. See the Data Appendix for the precise definition and source of each variable.

Table 9: Selection by Subsample

	Pre-Period Proxy for Risk						
	Positive Health	Self-Rated Health:		Health Indicator Within Normal Range:			
Sample	Expenditures	Fair	Bad or Very Bad	BMI	Cholesterol	Blood Pressure	HbA1c
Full Sample	.037	.056	.069	.005	-.019	.016	.053
	(.029)	(.019)	(.031)	(.017)	(.032)	(.014)	(.029)
By Age:							
< 40	.037	.059	.112	-.007	.012	.031	.064
	(.032)	(.022)	(047)	(.019)	(.035)	(.017)	(.036)
40 to 60	.020	.052	.085	.028	-.048	.011	.069
	(.033)	(.026)	(.044)	(.030)	(.033)	(.023)	(.035)
> 60	.074	.070	.043	.013	-.020	-.012	.066
	(.037)	(.035)	(.049)	(.034)	(.052)	(.036)	(.043)
By Gender:							
Females	.053	.090	.052	-.026	-.062	-.001	.040
	(.031)	(.025)	(.050)	(.023)	(.037)	(.019)	(.035)
Males	.026	.032	.062	.028	.006	.007	.056
	(.032)	(.038)	(.034)	(.020)	(.033)	(.016)	(.031)
By Household Assests:							
High Assets	.023	.055	.088	-.001	-.010	.006	.061
	(.026)	(.020)	(.043)	(.021)	(.032)	(.018)	(.028)
Low Assets	.076	.051	.025	-.020	-.037	.024	.024
	(.043)	(.030)	(.041)	(.023)	(.041)	(.018)	(.040)
By Pre-Period Employement Status:							
Employed	.040	.076	.098	-.013	-.021	.019	.036
	(.031)	(.024)	(.043)	(.020)	(.036)	(.018)	(.033)
Unemployed	.032	.033	.037	.033	-.012	.009	.073
	(.034)	(.021)	(.037)	(.022)	(.034)	(.018)	(.034)
By Location Type:							
Urban	.067	-.051	-.069	-.010	.075	-.009	.061
	(.039)	(.044)	(.104)	(.035)	(.054)	(.043)	(.055)
Rural	.036	.052	.064	.003	-.040	.017	.050
	(.032)	(020)	(.032)	(.017)	(.033)	(.013)	(.030)
By Number of Doctors in the Area:							
Above Median	-.030	.027	.115	-.005	.042	.027	.026
	(.030)	(.027)	(.048)	(.025)	(.037)	(.024)	(.035)
Below Median	.054	.052	.029	.002	-.032	.012	.045
	(.034)	(.022)	(.034)	(.019)	(.035)	(.016)	(.034)

Notes: Entries denote ordinary least squares of γ in equation (1) for various proxies of risk and different subsamples of the data. The respective risk proxy is listed on the top of each column, and the subsample is listed on the left of each row. Heteroskedasticity robust standard errors are clustered on the level of randomization and reported in parentheses. All regressions contain the baseline set of controls and indicator variables for missing values on each covariate. See the Data Appendix for the precise definition and source of each variable.

Table 10: Robustness and Sensitivity Analysis of the Impact of Health Insurance on Self-Protection

A. Cross-Sectional Analysis (Post-Period)

	I. ASTE		*II. Z-Scores*	
	Preventive Care		Preventive Care	
Covariates	ITT	LATE	ITT	LATE
No Controls	-.038	-.103	-.037	-.106
	(.025)	(.067)	(.017)	(.051)
Baseline Controls	-.047	-.132	-.044	-.129
	(.024)	(.067)	(.016)	(.051)
Baseline Controls, Pre-Period Health Insurance	-.057	-.175	-.051	-.162
	(.024)	(.074)	(.016)	(.056)
Baseline Controls, Pre-Period Health Insurance,	-.050	-.153	-.046	-.145
Outcome in Pre-Period	(.022)	(.067)	(.014)	(.050)

B. Panel Data Analysis (Pre- & Post-Period)

	I. ASTE		*II. Z-Scores*	
	Preventive Care		Preventive Care	
Covariates	ITT	LATE	ITT	LATE
No Controls	-.023	-.061	-.034	-.098
	(.018)	(.048)	(.012)	(.038)
Period Fixed Effects	-.038	-.103	-.037	-.106
	(.025)	(.067)	(.017)	(.051)
Period Fixed Effects, Baseline Controls	-.048	-.134	-.045	-.131
	(.024)	(.066)	(.016)	(.057)
Period Fixed Effects, Individual Fixed Effects	-.027	-.095	-.031	-.112
	(.029)	(.103)	(.028)	(.071)

Notes: Entries are ITT and LATE estimates of the effect of insurance coverage on the utilization of preventive care analogous to ϕ and π in equations (3) and (4), respectively. The columns on the left show average standardized treatment effects (cf. equation (2)), and the colums on the right use z-scores as indices of self-protection (cf. Kling et al. 2007). The top panel presents cross-sectional estimates, and the lower one contains coefficients from panel data models using pre- and post-period observations. The set of controls is denoted on the left of each row. Standard errors are clustered on the level of randomization and reported in parentheses. Those for ASTE have been calculated using the block-bootstrap with 1,000 iterations. All regressions contain indicator variables for missing values on each covariate. See the Data Appendix for the precise definition and source of each variable.

Table 11: Average Standardized Treatment Effects by Subsample

Sample	Preventive Care ITT	Preventive Care LATE
Full Sample	-.047	-.132
	(.024)	(.067)
By Age:		
< 40	-.039	-.110
	(.026)	(.075)
40 to 60	-.054	-.147
	(.026)	(.075)
> 60	-.067	-.201
	(.037)	(.123)
By Gender:		
Females	-.053	-.145
	(.023)	(.068)
Males	-.011	-.037
	(.028)	(.094)
By Household Assests:		
High Assets	-.037	-.120
	(.025)	(.082)
Low Assets	-.065	-.149
	(.030)	(.075)
By Pre-Period Employement Status:		
Employed	-.058	-.161
	(.027)	(.078)
Unemployed	-.048	-.130
	(.024)	(.069)
By Location Type:		
Urban	-.054	-1.029
	(.040)	(46.238)
Rural	-.048	-.123
	(.025)	(.067)
By Number of Doctors in the Area:		
Above Median	-.061	-.185
	(.047)	(.194)
Below Median	-.035	-.088
	(.027)	(.071)
By Pre-Period Health:		
In Very Good or Good Health	-.037	-.110
	(.026)	(.075)
In Fair Health	-.056	-.146
	(.024)	(.071)
In Bad or Very Bad Health	-.067	-.161
	(.038)	(.100)

Notes: Entries are standardized average treatments effects of insurance coverage on the utilization of preventive care in various subsamples of the data, i.e. ITT and LATE estimates corresponding to ϕ and π in equations (3) and (4), respectively. The respective subsample is listed on the left of each row. Bootstrapped standard errors are clustered on the level of randomization and reported in parentheses. All regressions contain indicator variables for missing values on each covariate. See the Data Appendix for the precise definition and source of each variable.