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Health or Wealth: Decision Making in Health
Insurance

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Abstract

In this thesis we investigate whether health insurance decisions can be explained by loss aversion. We use a model of reference dependent preferences as developed by Kőszegi and Rabin (2006) to show that under loss aversion there are different maximum willingness to pay for private health insurance. We do not endogenise the reference point. Instead we attempt to alter the reference point through framing in a laboratory setting, in a manner which is consistent with the original Tversky and Kahneman (1981) formulation of prospect theory. We find that the framing effect did not result in a difference between the proportion of subjects who purchased private health insurance. We do find that subjects make decisions closer to that of an expected utility maximiser in the treatment which is framed such that the reference point is consistent with having private health insurance, where there is a loss in health and a gain in wealth from giving up the insurance. Our result highlights the importance of framing for governments or policy makers who are attempting to influence individuals behaviour.

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