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Health care demand elasticities by type of service

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Abstract

We estimate within-year price elasticities of demand for detailed health care services using an instrumental variable strategy, in which individual monthly cost shares are instrumented by employer-year-plan-month average cost shares. A specification using backward myopic prices gives more plausible and stable results than using forward myopic prices. Using 171 million person-months spanning 73 employers from 2008-2014, we estimate that the overall demand elasticity by backward myopic consumers is -0.44, with high elasticities of demand for pharmaceuticals (-0.44), specialists visits (-0.32), MRIs (-0.29) and mental health/substance abuse (-0.26), and lower elasticities for prevention visits (-0.02), and emergency rooms (-0.04). Demand response is lower for children, in larger firms, among hourly waged employees, and for sicker people. Overall the method appears promising for estimating elasticities for highly disaggregated services although the approach does not work well on services that are very expensive or persistent.

Keywords: Elasticity; cost sharing; high deductible health plans; dynamic demand for health care; myopic expectations.

(JEL: I11, C21, D12)

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