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WHEN SOCIAL ASSISTANCE MEETS MARKET POWER: A MIXED DUOPOLY VIEW OF HEALTH INSURANCE IN THE UNITED STATES

ABSTRACT

We develop a mixed duopoly model with quality-differentiated products. The public firm offers its product for free to eligible individuals, while the private firm chooses its product quality and price to maximize profit. We calibrate the model to health insurance for the U.S. working-age population, with Medicaid being the public firm. We examine distributional implications of policies that expand Medicaid to various degrees. Despite potentially significant inefficiency of Medicaid, its expansion is welfare improving. Central to these findings is the significant market power of the private firm when left unchecked, which is increasingly disciplined as more individuals become Medicaid eligible.