

Discussion of Session 2 – Valuation: welfare theory vs empirical research

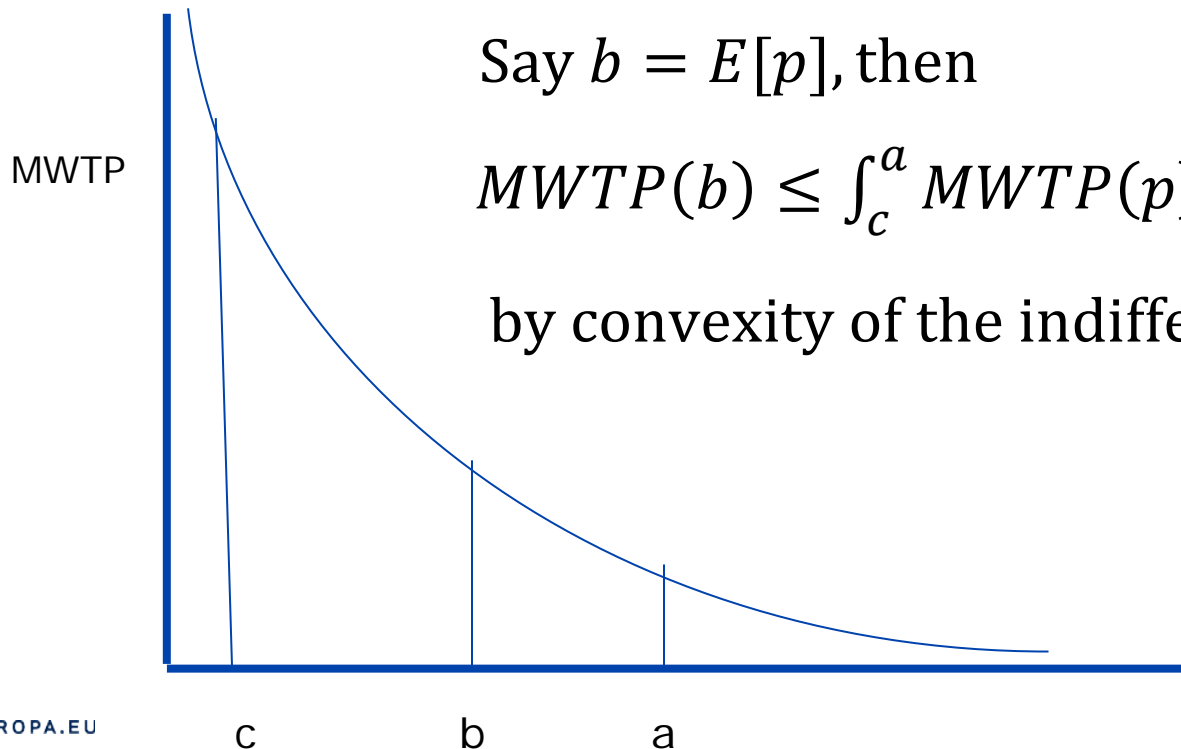
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Theory meets empirics

- All three paper at the knowledge frontier
- Shelby: valuing risk for oneself vs others, perception of risk and risk control (introducing endogeneity issues)
- Rebecca: time preferences w/ respect to serious diseases: latency, duration and their interaction
- James: WTP for a QALY: can we build a bridge between monetization and valuation in terms of health utility measures?
- All three papers have important policy implications

Baseline risk and marginal WTP for health risk reduction

- MWTP for kids lower than for parents: specific to heart disease?
- Implications are impressive: factor 250 larger estimate for standard approach. Why am I puzzled?



Say $b = E[p]$, then

$$MWTP(b) \leq \int_c^a MWTP(p) f(p) dp$$

by convexity of the indifference curve

RISK
(chances in 100)

Variable discount rates and non-standard discounting

- Experimental discount rates substantially larger than regulatory discount rates even if latency is rather long
- Only 1/3 of respondents' choices support exponential discounting, problem for policy making?
- Independence assumption in regression analysis is likely too strong as respondents seek consistency w/ earlier answers
- Data better analyzed w/ individual random effects model
- Perceived vulnerability to any of both risks might affect discounting (e.g., smokers vs non-smokers)

Valuing non-fatal health risks

- Function to estimate money value of change in QALY
- If utility of health and longevity are cond. independent of wealth, then $U(h,t,w) = Q(h,t) * a(w) + b(w)$
- Suggests non-constant MRS b/ money and QALY
- Compare to commonly assumed constant MRS: how big a difference in practice?
- Doesn't age-dependent VSL capture exactly difference in marginal utility of income in different periods of life?
- In reality, health and longevity positively correlated w/ wealth – impact on the model's prediction?