Group work (21st December)

1. Describe, also using a graph, the feasible contract wedge in RS model.
2. Explain why there is no pooling equilibrium in RS model.
3. Illustrate how price distortion and elasticity of demand affect the social loss from moral hazard.
4. Describe, also using a graph, the locus of feasible contracts in a world with moral hazard.
5. With reference to Nordhaus model, also using a graph, discuss the choice of the optimal patent length by a social planner.
6. Discuss the trade-off faced by a regulatory authority when deciding on drugs’ approval
7. Consider the table below, which summarises the relevant information of a CEA study for four competing interventions.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Project | A | B | C | D |
| Costs (million Euros) | 2 | 3 | 5 | 7 |
| Benefits (QALY) | 1.0 | 0.8 | 1.5 | 1.6 |

1. Draw the cost effectiveness frontier (CEF).
2. Compute the ICER between pair of treatments and the slope of the CEF.
3. What would be your recommendation? Explain.
4. Consider the table below, which summarises the relevant information of a CBA study for two competing interventions, A and B.

|  |  |  |
| --- | --- | --- |
| Project | A | B |
| Costs (million Euros) | 2 | 5 |
| Benefits (million Euros) | 10 | 15 |

1. What is the NPV? Assuming costs and benefits are present values, compute the NPV for each project.
2. Based on the answer to point a., what would be your recommendation? Explain.
3. What other factors could suggest a different choice?