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
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 \( U(h,t,w) = Q(h,t) \times a(w) + b(w) \)

• 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?