CALENDAR:

Departmental Seminar
Joachim Winter (LMU München):
Plan switching and inertia in Medicare Part D:
Evidence from administrative data
Monday, November 24
16.30–18.00
H 13

Lunch Seminar
Bing Zhu (Universität Regensburg):
The Multi-country Transmission of Sovereign and Banking Risk
Wednesday, November 26
12.00–13.30
VG 2.35
ABSTRACTS:

**Departmental Seminar**

*Joachim Winter:*  
*Plan switching and inertia in Medicare Part D: Evidence from administrative data*

**Abstract:** The trend towards giving consumers choice about their health plans has invited research on how good they actually are at making these decisions. The introduction of Medicare Part D is an important example. Initial plan choices in this market were generally far from optimal. In this paper, we focus on plan choice in the years after initial enrollment. Due to changes in plan supply, consumer health status, and prescription drug needs, consumers’ optimal plans change over time. However, in Medicare Part D only about 10 percent of consumers switch plans every year, and on average, plan choices worsen for those who do not switch. We develop a two-stage panel data model of plan choice whose stages correspond to two separate reasons for inertia: inattention and switching costs. The model allows for unobserved heterogeneity that is correlated across the two decision stages. We estimate the model using administrative data on Medicare Part D claims from 2007 to 2010. We find that consumers are more likely to pay attention to plan choice if overspending in the last year is more salient and if their old plan gets worse, for instance due to premium increases. Moreover, conditional on attention there are significant switching costs. Separating the two stages of the switching decision is thus important when designing interventions that improve consumers’ plan choice.

**Lunch Seminar**

*Bing Zhu:*  
*The Multi-country Transmission of Sovereign and Banking Risk*

**Abstract:** This paper empirically investigates the transmission of sovereign, banking and corporate default risks in 11 EMU countries from Jan. 2008 to Dec. 2013 using a spatial vector autoregressive model with Bayesian estimation. The empirical results show significant dependences across the 11 countries and the three sectors, channelled by trade integration, bank flow and portfolio investment exposure. Banking shocks propagate to sovereign and corporate sectors in both domestic and foreign markets. On average, they can forecast 20% of sovereign CDS variation (15% by foreign banking shocks), 82% of banking CDS variation (21% by foreign banking shocks) and 37% of corporate CDS variation (32% by foreign banking shocks). Countries with positive account balance and lower unemployment rate are more resistant to foreign shocks. Financial interventions, including liquidity support and recapitalization, are found to be able to remarkably prevent the cross-country and cross-sector spillovers of banking and sovereign shocks and therefore can help to weaken the ‘multi-country sovereign – bank – and – corporate feedback loops’.

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