Equilibrium Labor Market Search and Health Insurance Reform*

Naoki Aizawa†    Hanming Fang‡

June 15, 2012

Abstract

We empirically implement an equilibrium labor market search model where employers make health
insurance coverage decisions and use it to predict the impact of the Affordable Care Act (ACA). In
our model, health insurance coverage decision is made that recognizes its impact on the dynamics of
health status of workers as well as attracting unhealthy workers, who raise health insurance costs and
reduce firm’s productivity. In equilibrium, wage, health insurance provision, employer size, employment
and worker’s health are all endogenously determined. The resulting equilibrium is one in which more
productive employers tend to offer higher wage and health insurance and hire more workers. We estimate
the model using various micro data sources for labor market dynamics, health, health insurance, medical
expenditure, and employer size. Throughout counterfactual policy experiments, we find that the ACA
will substantially reduce uninsured rate. We also find that it has a significant impact on wage, employer
size, labor productivity, and welfare. Finally, we assess the efficacy of the ACA by comparing with
alternative health insurance reforms, including the ones without individual or employer mandate.

Keywords: Health, health insurance, labor market equilibrium, job search.

JEL Classification Number: G22, I11, I13, J32.

---

*Preliminary and Incomplete. All comments are welcome. Please do not cite without authors’ permission.
†Department of Economics, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104. Email:
aizawa@sas.upenn.edu
‡Department of Economics, University of Pennsylvania, 3718 Locust Walk, Philadelphia, PA 19104 and the NBER. Email:
hanming.fang@econ.upenn.edu