

Formal Requirements for Inducing More Equitable Outcomes

Saba Devdariani

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Abstract

Medicare prices for medical services, both directly and indirectly, influence the total expenditure on physical care and medical services in the U.S., which amounts to more than 3% of the GDP. Yet, there is an empirical evidence showing that the way the Medicare advisory committee operates makes its recommendations biased. This paper proposes improvement on the current procedure to decrease this bias. This setup is common to other advisory committees and therefore we analyze general case of delegated information acquisition with a biased agent who has private information about the state of the world. The additional information acquired is public and its informativeness increases with costly effort. Equilibria are characterized for two cases: (1) when the agent has a discretion on effort level and (2) when a principal imposes formal requirements on effort depending on private report from the agent. The analysis demonstrates that even when the principal cannot commit to an arbitrary decision rule about the final policy choice, he benefits from imposing formal requirements by getting as much public information as possible and correctly aligning the biased agent's incentives. In mechanism we propose, the principal incentivizes the agent with low private information to truthfully reveal this information by requiring a relatively low amount of costly effort. On contrary, the high private report from the agent has to be supported by the maximum effort in public signal.