



“THE OPTIMAL BUNDLE”

SUMMER 2015: VOLUME ONE
JULY 15, 2015

EDITOR: STEVE LEONARD PRINT EDUCATION COORDINATOR
CONTRIBUTORS: MIKE CHUBINSKY, SURABHI GHAI, JOE KEARNS, STEVE LEONARD

Monopoly: Health Insurance Edition

The largest insurance deal in history is looming and it became closer to reality on July 3rd, when health insurance giant Aetna agreed to purchase Humana Inc. for a total of \$37 billion in cash, stock, and debt. Since the Affordable Care Act was enacted, insurance companies have diversified services and cut costs through increased consolidation to comply with the law's cap on insurers' operating expenses. While Cigna Corp. and Anthem Inc. also began talks towards a merger, Centene Corp. already agreed to buy Health Net Inc. for \$6.3 billion. Combined, Aetna and Humana would bring an annual revenue of \$115 billion, 56% of which is estimated to come from government programs, primarily Medicare and Medicaid. The merger should set Aetna at the forefront of the privately-run Medicare Advantage business and secure its spot at the top of U.S. insurance providers. Though Aetna and Humana's CEOs are optimistic, many financial analysts believe monopolization of health insurance will be detrimental for consumers. For this reason, the merger likely faces antitrust scrutiny. —SG



Aetna is the third largest health insurance company in the U.S. It has a \$40 billion market capitalization.

READ MORE: <http://usat.ly/1Di18k1> <http://reut.rs/1J1ntnu> <http://on.wsj.com/1K8NZkW> <http://cnb.cx/1gCQHTo> <http://usat.ly/1Di18k1>



The American International Group paid back the final installment of its government bailout on March 1, 2013.

AIG: Too Big to Wail? Maybe Not.

Who could forget the AIG Bailout that ultimately totaled \$185 billion? Amidst the financial crisis, the United States government—with the support of the Federal Reserve—issued a loan to AIG, got a 79.9% ownership share and charged a high interest rate of 12%. Ultimately, American taxpayers were paid back in full and the government made a profit of more than \$20 billion. But controversy arose when the former AIG Chairman, Hank Greenberg, brought a lawsuit against the government, contending that the Fed overstepped its bounds by treating AIG unfairly. In June, many legal experts were surprised when a Federal Court, essentially, sided with Greenberg. Although Greenberg was granted none of the \$40 billion he requested in damages, Judge Thomas C. Wheeler ruled that the Fed's takeover of AIG was not legal, and violated the Fifth Amendment. Stay tuned, as this ruling may be appealed. The legal precedents that will be set by this case will, no doubt, help to further define the interventionist role the Fed may play in future financial crises. —MC

READ MORE: <http://nyti.ms/1HvTLJL> <http://on.wsj.com/1J1tJAN> <http://nyti.ms/1e1AV2l>

Tradin' in the Free World: The Demise of the Export-Import Bank

This is the way the Export-Import Bank ends. Not with a bang, but with a whimper. Congress let the Bank's Charter expire on Tuesday night, meaning the Bank cannot extend new loans or guarantees to U.S. exporters and foreign importers of U.S. goods. This predominantly affected ten companies which comprised 64% of the bank's assistance as of 2013. That year, Boeing alone received 30% of Ex-Im Bank funds. Proponents of the Bank argue the size of Boeing's assistance is justified because of comparable French and German subsidies to Airbus, the sole competitor in the wide-body market. Meanwhile, Delta Airlines—Boeing's domestic competitor—claims that foreign rivals Air India and Emirates use Ex-Im Bank guarantees to lower borrowing costs and undercut American companies. While Boeing has aides to House speaker John Boehner and minority leader Nancy Pelosi lobbying for the Bank, Delta has aides to Senate majority leader Mitch McConnell and other political leaders on its side. It will be politics—not economic philosophy—that determines whether the Bank returns. —JK



The Export-Import Bank's historic goal is to support U.S. exports by providing assistance to foreign governments and businesses.

READ MORE: <http://bit.ly/1J1ubi3> <http://bit.ly/1RAnVDp> <http://nyti.ms/1CedTuF> <http://on.wsj.com/1I42hmB>

Op-Ed

14 Candidates and Counting

One issue with having a government dominated by two parties on opposite ends of the political spectrum is that, when individuals vote for one candidate versus another, they are restricted to an oligopolistic marketplace of ideas. They must either vote for basket of ideas 'A', or basket of ideas 'B' – not a little 'A' and a little 'B', or some combination like that.

This year, the Republican Party has inadvertently thrown a wrench into that notion by having 14 candidates on their primary ballot at present. This is a good thing because political oligopolies—like their business counterparts—aren't forced to conform to the norms of perfect competition. Due to each candidate's inherently higher market share in an oligopoly, a two or three candidate primary doesn't force the individuals within to conform to the needs of the people as a perfectly competitive race would. After all, a perfectly competitive firm, or "price-taker", who charges over their marginal cost will lose their entire market share of consumers. Much like this, a candidate in a perfectly competitive election—let's call them a "platform-taker"—must be flexible to new ideas and the needs of the people to capture their respective share of voters; else they will surely not win the primary.

So let's assume the Republican Party exits their primary with an optimal candidate and that candidate has a platform that satisfies the vast majority of Republican voters due to the highly competitive primary election they just participated in. If that candidate can capture the majority of independent voters--and they should be able to since independent voters are swing votes and the platform presented by the candidate is 'optimal'-- they should win the general election.

Through this example, we can see how more candidates help to eliminate the idea of voting for basket of ideas 'A' versus basket of ideas 'B'. The increase in competition forces candidates to be more flexible to the needs of the people. Thus, a more optimal candidate and a more optimal platform (or basket) is the result at the end of the election. So bring on the candidates because perfect competition creates the possibility of satisfying far more voters than in presidential elections of years past. —SL