

**Abstract:** The medical assistance (MA) system in Japan provides medical care services to public assistance beneficiaries without any financial burden, but it also could potentially increase the medical expenditure due to the two major inefficiencies: moral hazard and supplier-induced demand. In this study, nationally representative sets of medical claim data are used to examine how assignment to the MA system affects the utilization of outpatient health care. Empirical results obtained using a dummy endogenous variable model to control for non-random MA assignment, which is subject to means testing by the local government, shows that MA assignment significantly increases medical expenditure. Its arc elasticity ranges from  $-0.171$  to  $-0.160$ , which is comparable to the RAND Health Insurance Experiment. In addition, after excluding fatal patients, the elasticity increases to  $-0.250$ , which exceeds that obtained in recent empirical studies of low-income populations. In addition, the elasticities for new MA patients are significantly larger than those for continuing patients and that MA clinic patients are particularly price-sensitive.