

1. The HMO is a provider and a payer. As an insurer, the HMO shares the financial risk of providing care. The HMO does have some control over the amount of care provided.
- 2.
3. Very similar to #2 above.
4. If there are few treatment alternatives or the procedures are minimally invasive, physicians have more power to induce patient demand. This would imply that the more price inelastic demand, the better able physicians are to induce demand. Calculate demand elasticities to determine where potential problems may be.
5. The types of surgeries where physicians have more latitude may be speculative—CABGs, hernia repair.
6. Who better to determine the scope of legitimate medical care activities than practitioners of the trade? Then again, it is in their best interest to limit competition and thus set standards so high as to disqualify all non-MD competition.
- 7.
8. See the discussion on pages 212-214.
9. Economists define a shortage at any given wage rate as when quantity demanded exceeds quantity supplied. In such cases, wages would tend to adjust upwards to clear the market. If wages are below the level to clear a particular market, then we would expect to see high turnover in that market. What else would you expect to observe?
10. Nursing markets.
  - a) The competitive outcome is found by setting demand = supply.  $Q = 960$  and  $P = 308$ .
  - b) The monopsony outcome is found by setting demand = MWC and then setting wage off of the supply function.  $Q = 600$  and  $P = 200$ . Note that under monopsony, fewer nurses are hired and they are paid a lower wage.
11. We did this in class.
12. In theory, the for-profit hospital will not undertake activities unless the marginal benefit exceeds the marginal cost. They both seek to generate a surplus of revenue over cost. The differences would be in how they use their surplus.
13. A horizontal merger is when two firms in the same industry merge, for example, when two hospitals merge. A vertical merger is when firms at different stages of a production process merge, for example, when a hospital merges with an acute care nursing home.
- 14.
15. See the discussion on pages 241-243.
16. We did this one in class.
17. If it is a disease, then health insurance should pay for treatment alternatives. If all diseases are covered equally, the result is a proliferation of spending.
18. Measured in lives lost, cocaine and other drug abuse results in fewer than 10,000 deaths per year, alcohol abuse over 100,000, and tobacco-related illnesses over 400,000.
19. Summarize the pros and cons presented in “Is ‘Safe’ Sex Really Safe?” beginning on page 272.
20. Demand for medical care changes over the life-cycle in predictable ways. The young deal with childhood illnesses, teens with accidents, young adults with fertility-related issues, the middle-aged lifestyle choices made earlier in life that lead to acute care needs, and the elderly face chronic illnesses. As the population ages we will see more demand for the care for the elderly and services they desire.
21. As the population ages there will be an increased incidence of elderly women living alone. Fewer daughters and daughters-in-law mean fewer family human resources to take care of elderly women and a higher demand for long-term care facilities.
- 22.
23. See page 279.
24. We discussed this one in class.
25. Using the human capital approach to valuation, \$4.8 million may seem a bit high for the value of the average life. The median income in the United States is around \$30,000. The median age is around 38 years. If the typical person works until age 65, that means 27 years income lost in the event of a premature death, or \$810,000 undiscounted, or about one-fifth of the EPA estimate. What is the value of being able to sit and smell the roses?
26. Rent-seeking is the manipulation of the political system to achieve private gain.
27. Ask Brennan.
28. See above.