

Managed Care

1. What are the distinguishing characteristics of a health maintenance organization? How do HMOs differ from other insurers operating in the health insurance industry?
2. How are incentives to providers different when they are paid on a capitated basis rather than a fee-for-service basis? Discuss the arguments (both pro and con) relating to placing physicians on risk-sharing contracts.
3. Describe the major features of a risk-sharing contract between a general practitioner (GP) and an HMO. How does the existence of such a contract change the incentive structure facing the GP? What are the pitfalls facing patient and physician under these circumstances?

Market for Health Care Professionals

4. It has been argued that medical practitioners have the ability to generate demand for their own services. What is the theory behind this hypothesis? What assumption of the perfectly competitive model must be violated? What is the empirical evidence used to support the theory of physician-induced demand?
5. If surgeons really have the ability to increase the demand for operations, which kinds of operations will be most affected? Can you think of a way to determine which operations are unnecessary?
6. The American Medical Association (AMA) has been actively involved in shaping the regulation of nursing and other health care practitioners. What are the arguments for and against the AMA determining the scope of legitimate activities for other health care practitioners?
7. Many states prohibit the practice of lay midwifery, an unlicensed health care provider assisting in childbirth. What are the arguments in favor of such a prohibition? The arguments against? How is this lay midwifery any different from weight-loss counseling, ear piercing, and other activities provided by both licensed physicians and unlicensed lay practitioners?
8. Do regional variations in surgeries mean that some physicians over-treat and other under-treat? Do these differences indicate inappropriate and unnecessary care?
9. Is there a shortage of doctors in the United States? What is the evidence?
10. The following equations describe the labor market for nurses in a small Midwestern town along the Ohio River.
$$P = 500 - 0.20Q \quad \text{Demand}$$
$$P = 20 + 0.3Q \quad \text{Supply}$$
$$MWC = 20 + 0.6Q \quad \text{Marginal Wage Cost}$$
 - a) Suppose that the nursing market is competitive. What will be the equilibrium employment and wage?
 - b) Suppose that the nursing market is monopsonistic. What will be the equilibrium employment and wage? What is the MRP of the nurses at this employment level?
11. Nima is now working as a family dentist and earns \$100,000 per year. He is contemplating a 1-year periodontist course which entails costs of \$25,000 for books and tuition. Nima estimates that the course will increase his income to \$130,000 in each of the 3 years following completion of the course. At the end of those 3 years, Nima plans to retire to a commune in Eugene, Oregon. The current interest rate is 10 percent. Is it economically rational for Nima to enroll in the course?

Market for Hospital Services

12. In theory, describe the different operating characteristics of the for-profit and the not-for-profit hospital.
 13. What is a horizontal merger? A vertical merger? Provide examples of each in the current hospital marketplace.
 14. How does competition manifest itself in the not-for-profit sector? Explain.
 15. Using the theory of cost-shifting, describe what happens to the fees paid by private patients when Congress lowers the amount Medicare pays for services to the elderly.
 16. Medicare cost-shifting. The following equations represent the monopoly demand and cost structure facing a profit-maximizing hospital. Q is the number of private patients.

$P = 300 - 0.10Q$	Demand
$MR = 300 - 0.20Q$	Marginal Revenue
$MC = 60 + 0.1Q$	Marginal Cost
- a) What is the profit-maximizing price and quantity for a monopoly hospital?
 - b) Suppose that Medicare regulates price to be no more than $P = \$200$ for Medicare patients. How many Medicare patients would the hospital admit and at what price? How many private patients would the hospital admit and at what price?
 - c) Redo part (b) if Medicare regulates price to be no more than $P = \$160$.

Socio-Cultural Considerations

17. Is it important to characterize such social problems as alcoholism and drug abuse as diseases rather than behavior disorders? What are the implications of treating other social problems as diseases? What about anorexia? Obesity? Domestic violence? What are the implications for the medical care system of the proliferation of these new “diseases?”
18. What are the costs to society of cocaine use? Alcohol use? Tobacco use? Which of these presents the biggest problems? Explain.
19. “The best way to lower the incidence of sexually transmitted diseases is to make condoms widely available to teenagers and educate them in their proper use.” Do you agree or disagree? Explain.

Aging of the Population

20. As individuals grow older, how does their demand for medical care change? How does aging affect the provision of medical services?
21. In 1993, the Census Bureau estimated that elderly men were nearly twice as likely to be married and living with their spouses as elderly women (75% versus 41%). What are the economic and medical care implications of this phenomenon?
22. With increased life expectancies, improved medical technology, and higher overall medical care spending, how can economics contribute to the discussion concerning the treatment of the critically-ill elderly patient? What are the economic issues of prolonging life?
23. Use indifference curves to explain why cash payments are preferred to in-kind transfers.
24. What is the economic basis for the intergenerational conflict concerning medical spending on the elderly?

Legal System and Malpractice

25. Environmentalists and economists often find themselves at odds with each other. The conflict between the Romantics and the rationalists surfaced again in the debate over air-quality standards set under the Clean Air Act of 1990. Under the law, the EPA must establish standards that promote public health. The EPA's cost-benefit analysis assigns a value for each life saved of \$4.8 million. Is \$4.8 million a reasonable value to place on each life saved? What questions would economists consider relevant in determining the value of life? How would environmentalists react to the questions economists ask?
26. What is rent-seeking behavior? Ostensibly, the American Trial Lawyers' Association (ATLA) serves to improve the functioning of the market system by making sure every person injured through the negligence of someone else has his or her day in court. Do you think the ATLA is sincere in its attempts to benefit injured parties and is not concerned with the rent-seeking opportunities? Do you think trial lawyers are deliberately seeking rents?
27. Are we experiencing a litigation explosion in the United States? What is the evidence?
28. Outline the major arguments for and against comprehensive tort reform in the US.