LESSON PLAN - THE DEMAND AND SUPPLY OF MEDICAL CARE

I Demand for Medical Care

A. why is Demand analysis useful/interesting?
   - public policy issues which can be addressed using Demand analysis

B. Demand vs. "Need"
   - definition of "Need" for medical care.
   - results of "need" analysis = excess demand or excess supply.
   - what should we do if society decides Demand is too low? Public Policy.
   - Which is the best way, Need planning vs. a free market?

C. Deriving Demand for Medical Care
   - indifference curve analysis of "demand" for health
     - production possibility curves and production functions
   - how does medical care give consumers utility?
     - going from utility for health to utility for medical care
   - deriving the demand for medical care using indifference curve analysis
   - how does an illness affect indifference curves for medical care? Demand for medical care?
   - impact of income?
   - aggregate or market demand for medical care
   - consumer surplus
   - other impacts on the demand for medical care
     - why demand health?
       - consumption good
       - investment good
       - implications of viewing health in both of these manners
         - age
         - wages/income
         - education
     - how does patient demand for treatment affect demand for medical care?
       - how the incidence of illnesses affect demand
       - how cultural/demographic variables affect demand
       - how economic variables affect demand
       - the full price of medical care includes:
         - monetary price, time price, travel price, expected accident losses, etc.
     - the impact of the physician
       - the concept of the physician as the patient's agent
       - physician incentives when reimbursed on a fee-per-service basis
       - induced demand
     - how does insurance affect demand?
       - copayment by patients?
         - coinsurance?
         - indemnity insurance?
         - deductibles?
         - maximum payment limits?
     - how does quality affect demand?
     - Empirical studies of the demand for medical care
- problems with the studies
- general results
- RAND Health Insurance Experiment

D. Conclusions
- Allocative efficiency
  - impact of insurance
  - impact of induced demand
  - impact of consumer misperception of risk
  - impact of variations in physician practice patterns
  - mitigating factors.

II. Supply of Medical Care

A. Deriving a supply curve for medical care
  - supply for the firm.
    - aggregate or market supply.

B. Isoquant/Isocost analysis
  - define isoquants/isocost curves
  - what is the cost-minimizing input mix?
  - Substitution between health care inputs
    - Complementary inputs
    - Substitutable inputs
    - How much substitution? Elasticity of substitution
      - Definition
      - Empirical evidence

C. Cost Curves and Technological Efficiency
  - Long-run average cost
  - Firm Technological Efficiency
  - Industry Technological Efficiency

D. Why might medical care firms not want to minimize costs?
  - reimbursement by patients may not reflect true costs of production.
  - legal restrictions.
  - firm may not be a profit maximizer.

E. Analyzing Supply of Medical Care.
  - competition in the market.
    - how do we increase competition?
    - the role of regulation?
  - Allocative efficiency in the market?
  - Technological efficiency?
    - Firm (is the firm minimizing production costs?)
    - Industry (is the industry minimizing production costs?)