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 <u>not</u> 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?)