Review Notes - The Demand and Supply of Medical Care

- demand for medical care
  - why is demand analysis useful/interesting? (public policy analysis)
- demand versus need
  - define both and their shortcomings
  - which gives the best analysis for public policy purposes?
- deriving demand for medical care
  - how do patients gain utility from medical care?
  - graphically deriving a demand curve (know how to do it)
  - how does an illness affect indifference curves and demand?
  - impact of income?
  - aggregate/market demand for MC
  - what is consumer surplus? graphically?
  - what else affects demand for MC?
    - why demand health (why does this matter)?
      - health as a consumption or investment good...implications for demand for MC?
      - impact of patient demand for treatment on demand for MC?
      - incidence of illness, demographics, economic variables
        - make sure you understand the full price of MC.
      - impact of the physician (why does he matter?)
        - what is induced demand? what impact does how the physician is reimbursed have on demand?
    - impact of health insurance?
      - know all the definitions of terms and how each affects D
        - copayment, coinsurance, indemnity ins., deductibles, maximum payment limits, etc.
    - impact of quality?
    - empirical studies (know only generalities like whether demand is elastic/inelastic and what that means.)
    - allocative efficiency (what's that?)
      - impact of the various factors (see above) on the efficiency of the market.

- supply of medical care
  - deriving the supply curve, firm and market
  - Isoquants/Isocosts – cost minimization
    - Definitions – make sure you know what each is, how it works, especially graphically
• Where is the cost minimizing use of inputs using isoquants/isocosts?
• Where is the technologically efficient use of inputs?
• Use of Isoquants/Isocosts in supply of medical care
  • Are inputs like Drs and Nurses substitutable or complementary?
    • Graphical analysis
    • Empirical evidence (what is elasticity of substitution?)
• Relate isoquant analysis to long-run average cost curve

■ What is the definition of Technological Efficiency?
  • Firm Technological Efficiency
  • Industry Technological Efficiency
  • profit max. firms generally want to minimize costs - why not for medical care firms? Be specific

■ analyze the supply side of the market
  • what is the role of competition in the market?
  • allocative efficiency
  • technological efficiency