Review Notes - Secondary Markets - Physician Services

- Why do we have physician firms and what do they do?
  - what is the dual role of the physician?
  - what is vertical and horizontal integration?
    - market based firms versus integrated firms
  - regulation of physician firms
  - what are the possible goals of physician firms? (comment on each)
  - where does demand for physician services originate?
  - physician as agent (what does that mean?)
  - where does supply of physician services originate?

- Demand side performance of physician firms (allocative efficiency)
  - how do we measure allocative efficiency?
    - focus on competitive markets (how do they work?)
  - variations in physicians' fees between Drs. and geographic areas
    - how should fees vary in a competitive market?
      - with full information and no quality differences?
      - with incomplete information and quality differences?
    - what is the empirical evidence (i.e., is the market competitive/efficient?)
  - increases in physicians' fees over time
    - what should happen to fees, both in short and long-run, if market is competitive? (Hint: focus on costs of production.)
    - empirical (don't need to know numbers, but should know the general conclusions we came to in class based on the data.)

- Supply side performance of physician firms (technological efficiency)
  - inherent problems?
    - how do you measure output (know the possibilities and their advantages and disadvantages)?
    - what are the inputs into the process (how to measure them as well as relationship between the inputs)?
  - empirical studies of technological efficiency
    - again don't need to know numbers, but do need to know general conclusions.
    - optimal number of aides
    - economies of scale (do they exist, are they taken advantage of?)
    - group practice (what's that, relevance to tech. efficiency?)
    - physician referrals (problems with re: tech. efficiency)
      - what is fee-splitting and multi-specialty firms?
        - how is this a problem (i.e., incentives)?
    - what are the conclusions?

- Models of Physician pricing
  - monopoly pricing model
    - what are the assumptions of the model?
• what are the predictions of the model (i.e., what happens to price and quantity?)
  • important topics include entry barriers, cheating, advertising, etc.
• Supplier induced demand
  • What causes price rigidities?
  • Target Income Model
  • Disutility of Discretion Model
  • Inducement and Advertising
  • What are the problems?
    • What is “identification” and how is it relevant to induced demand models?
• Small area variation
• Public Policy regarding physician services
  • what is the overall conclusion regarding competition and efficiency (both allocative and technological) especially in recent years?
  • possible public policy proposals?
• Physician labor markets
  • why do individuals choose to become physicians?
    • make sure you know the model including costs, benefits, and graphical representation.
    • in general, what are the rates of return for physicians, higher or lower than for other types of education?
    • do the same things for the decision to specialize.
• Physician licensure
  • What are the major theories of licensure (3)?
  • What are the predictions of each theory as to the impact of licensure?
  • What is the empirical evidence as to which is correct?
• physician labor supply
  • how is this different than the decision to become a physician?
  • why do physicians supply labor?
    • you should understand two reasons (what are they?) and the implications about dr. labor supply which come from these reasons (focus on labor, leisure, and the wage rate).
  • what does an individual's supply of labor curve look like?
    • what are income and substitution effects?
    • can the Sa curve bend backwards? Under what conditions?
• market supply of labor (same questions)
  • what do empirical studies say?
• Physician location decisions
  • assumptions of the hotelling model
  • according to the model, where will physicians choose to locate?
  • what are the predictions, does the empirical evidence support the model?