

## LESSON PLAN - SECONDARY MARKETS: PHYSICIAN SERVICES

- I. Why do we have physician firms? (and what do they do?)
  - A. dual role of physician firms
    - the physician as an input into the production of physician services
    - the physician as owner and entrepreneur
  - B. the physician services firm vs. the market
    - vertical and horizontal integration (what's that?)
    - regulation
  - C. possible goals of the physician firm
    - profit
    - leisure (of who?)
    - patient's health
  - D. important issues to be addressed
    - demand side or allocative efficiency
    - supply side or technological efficiency
    - public policy implications
- II. Demand Side Performance
  - A. variations in physicians' fees between areas/physicians
    - how should fees vary in a perfectly competitive market?
    - if patients have incomplete information and must search?
    - if quality differences exist between physicians?
    - empirical predictions
    - is the market for physicians' services competitive? empirical results.
  - B. increases in physicians' fees over time
    - what should happen to fees in both short and long-run if the market is competitive?
    - do fee increases over time reflect increased costs?
    - conclusions
- III. Supply Side Performance
  - A. the production of physician services
    - how do you measure output
      - physician visits? - advantages and disadvantages
      - annual gross billings? - advantages and disadvantages
    - what are the inputs in the production process?
      - must be at least 1 physician (why?)
      - other inputs?
      - relationship between the inputs?
  - B. technological efficiency
    - empirical studies of the use of aides by physicians
    - group practice studies
    - referrals among physicians (why is this a concern?)
      - fee splitting
      - multi-specialty firms
- IV. Models of Physician Pricing
  - A. monopoly pricing model (collusive joint profit maximization model)
    - the importance of entry barriers
    - cheating on the cartel
    - what happens, according to the model, when insurance coverage increases?

- why limit advertising by physicians?

B. Supplier induced demand

- Price rigidities
- Target income model
- Disutility of discretion model
- Inducement and advertising
- Problems – identification
- Small area variation

V. Public Policy

A. conclusions about the level of competition in the physician services market

B. possible public policy proposals to increase competition

VI. The Physician as Labor

A. why become a doctor? Why specialize? (what matters when making the decision?)

- the cost of becoming a doctor
- the benefits of becoming a doctor
- graphical
- empirical rates of return

B. Licensure

- Theories of Licensure
- Empirical Evidence

C. labor supply of physicians

- why do physicians supply labor?
  - labor as a consumption good
  - labor as an investment good
    - the relationship between labor and leisure
    - what is the wage rate?
- what does an individual's supply of labor look like?
  - substitution effect
  - income effect
  - backward bending supply curves
- market supply of physician labor
- empirical studies of physician labor supply

VII. Physician Location Decisions

A. where should you locate?

B. the hotelling model

- locate where you can maximize the number of potential customers
- predictions from the model
- empirical evidence