

## Review Notes - Secondary Markets - Physician Services

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- 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  $S_L$  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?