

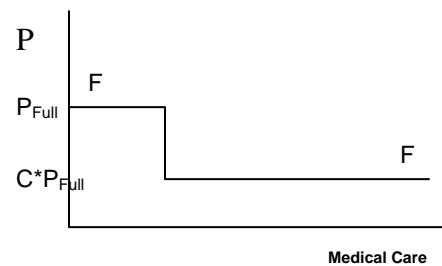
(5 points) Answer the following essay question, writing only on the paper provided:

1. Why do individuals choose to become physicians? Using graphical analysis, briefly discuss the model presented in class. Briefly explain your answer.

(10 points) Answer all of the following 10 multiple-choice questions. There are two extra credit questions as well that you may choose to answer. Make sure that your answers are coded in the answer sheet provided.

1. An isocost curve shows different levels of:
 - A. two inputs used holding costs constant.
 - B. Costs holding quantity constant.
 - C. two goods consumed holding costs constant.
 - D. two inputs used holding profits constant.
2. Consider the following two statements:
 - I. An isoquant curve shows different combinations of labor and capital that will all produce the same output.
 - II. The slope of the isoquant equals negative the ratio of the marginal utilities.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
3. Which of the following statements are true?
 - I. Physicians and their firms are only interested in maximizing their income or profits.
 - II. The level of competition in physician markets has been decreasing in the past two decades.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
4. In a competitive market with less than full information prices should:
 - A. Only vary as costs vary.
 - B. Vary more for small budget items.
 - C. Vary more for large budget items.
 - D. Only vary as demand varies.
5. Under supplier induced demand models, which of the following would cause physicians to not induce demand:
 - A. Higher income.
 - B. The disutility that comes from unethically inducing demand.
 - C. Higher prices.
 - D. A reduction in a physician's income cause by an increase in competition.
6. Which of the following statements are true?
 - I. Licensing of doctors, nurses, and other health care professionals only assures quality but does not create entry barriers.
 - II. The political economy (or public choice) theory of licensure suggests that regulators "sell" licensure to the highest bidder.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.
7. The quantity of labor supplied by an individual, such as a physician:
 - A. always rises when the wage rate rises.
 - B. always falls when the wage rate rises.
 - C. rises when the wage rate rises at low wage levels because the substitution effect outweighs the income effect.
 - D. rises when the wage rate rises at high wage levels because the income effect outweighs the substitution effect.
8. Which of the following statements are true?
 - I. Illness events tend to increase demand for health care.
 - II. Marriage tends to increase the demand for health care.
 - A. Both statements are true.
 - B. Both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.

Use the following Graph to Answer question 9

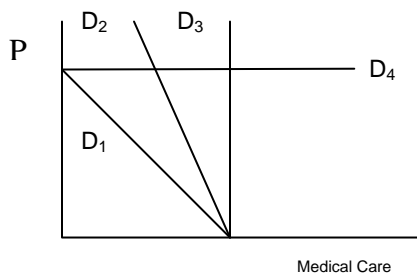


9. The relationship FF in the graph above shows the price for an individual with health insurance. This individual's health insurance plan includes:
 - A. Only a deductible.
 - B. Only coinsurance.
 - C. Both coinsurance and a deductible.
 - D. Coinsurance, a deductible, and a maximum payment limit.
10. Which of the following statements are true?
 - I. The elasticity of substitution measures how responsive is the factor input ratio to the factor price ratio.
 - II. Technological efficiency occurs whenever a firm is producing on its long-run average cost curve.
 - A. both statements are true.
 - B. both statements are false.
 - C. I is true while II is false.
 - D. I is false while II is true.

The Following Two Questions are Extra Credit

11. Which of the following has not occurred over time in the past several decades in the physician services market?
- A. The level of competition has increased.
 - B. Economies of scale have increased.
 - C. The number of group practices have increased.
 - D. The size of group practices has decreased.

Use the following Graph to answer question 12



12. Assuming that D₁ equals the market demand for medical care in the absence of health insurance, what would be the market demand when consumers have health insurance with coinsurance equal to 0 percent?
- A. D₁.
 - B. D₂.
 - C. D₃.
 - D. D₄.