

Homework 2

Due Wednesday, January 30, 2008

1. In the literature, it has been found that wives ‘nag’ their husbands to take care of their health. Using the graph and equation from the Grossman model, what would the model predict about the effect of marriage on health for men. That is, how does this ‘nag effect’ affect the health of married men compared to single men? Make sure to explain your diagram.
2. Consider the following table of long-run total cost for three different hospitals:

Quantity	1	2	3	4	5	6	7
Hospital A	60	70	80	90	100	110	120
Hospital B	11	24	39	56	75	96	119
Hospital C	21	34	49	66	85	106	129

Does each of these hospitals experience economies of scale or diseconomies of scale? Draw graphs and explain.

3. Specialty Docs is a small medical practice that is considering entering a market dominated by Big Box Hospital. Each firm’s profit depends on whether Specialty Docs enters and whether Big Box Hospital begins to offer more of the specialty services that Specialty Docs are good at. The strategic form of this game is:

		<i>Big Box Hospital</i>	
		Offer specialty	Don’t offer
<i>Specialty Docs</i>	Enter	(-\$1 million, \$1 million)	(\$2 million, \$3 million)
	Don’t Enter	(\$0, \$2 million)	(\$0, \$7 million)

Big Box Hospital threatens Specialty Docs by saying ‘If you enter, we’re going to offer your specialty services, so you had better stay out.’ Do you think Specialty Docs should believe the threat? Why or why not? What do you think that Specialty Docs should do? Why?