

Review Topics for Midterm 1

production function and diminishing marginal product
flat of the curve diagram
non-medical inputs to health
Grossman vs. Fuchs – theories about how education affects health
elasticity
Rand Health Insurance Experiment main finding
Fuchs Nevada/Utah study
Grossman's model of health determinants and its predictions
investment yield-health capital diagram
average total cost
short-run vs. long-run
economies of scale, constant returns to scale, and diseconomies of scale
economies of scope
competitive market – characteristics and price determination
certificate of need laws
medical arms race
prisoners' dilemma, Nash equilibrium, and dominant strategy
monopoly
marginal revenue and marginal cost
profit maximization in monopolistic market
cost shifting
excess demand or shortage
nondistribution in terms of non-profits
externalities, public goods and free riders
3 theories about why non-profits exist
3 theories about whether non-profits provider higher quality care
indifference curves
labor supply and demand
monopsony power
price discrimination
supplier induced demand
small area variation
variance and coefficient of variation
consumer surplus
medical malpractice and defensive medicine
community vs. experience rated insurance
4 or 8 firm concentration ratio
Herfindahl-Hirschman Index
net present value
medical care-drug graph: isoquant and budget line
effect of insurance distortions in price

Review Questions for Midterm 1

1. True or False? The findings from the Rand Health Insurance Experiment indicated that price has no impact on the utilization of health care. Briefly explain your answer.
2. Hadley calculated that the elasticity of mortality with respect to cigarette sales was -0.053. By what percent is health decreased if cigarette sales are increased by 1%?
3. What will happen to the equilibrium wage rate and equilibrium quantity of labor if the labor demand and supply simultaneously increase?
4. True or False? Proponents of supplier-induced demand argue that an increase in the number of physicians leads to an increase in demand, which leads to a decrease in supply. Explain using a supply and demand graph.
5. Using the table below, calculate both the 4-firm concentration ratio and the HHI index.

<u>Firm</u>	<u>Market share</u>
A	50%
B	20%
C	15%
D	6%
E	5%
F	4%

6. Using the medical care-drugs graph, show what a decrease in the price of drugs relative to medical goods would do to the quantities consumed of each (to maintain the same level of health).
7. True or False? Price discrimination always results in greater consumer surplus. Explain with graphs.
8. Using the table below depicting the costs and revenues at various stages in the life of a new drug. Assuming that the discount rate is 10%, calculate whether it is worthwhile for the firm to develop this drug?

Period	Research & Devt		Patent Protection		Patent Expired	
	1	2	3	4	5	6
Cost	150	200	10	10	10	10
Revenue	0	0	200	150	100	50