



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS 2020/2021 ACADEMIC YEAR THIRD YEAR SECOND SEMESTER

SCHOOL OF BUSINESS & ECONOMICS BACHELOR OF SCIENCE IN ECONOMICS

COURSE CODE: ECO 3206

COURSE TITLE: HEALTH ECONOMICS

DATE: 5TH OCTOBER, 2021

TIME: 1100 – 1300HRS

INSTRUCTIONS TO CANDIDATES

Answer question ONE and any **THREE** questions

*This paper consists of **three** printed pages. Please turn over.*

QUESTION ONE

- (a) Draw a bowed-out production possibility curve with an aggregate measure of medical services, Q , on the horizontal axis and an aggregate measure of all other goods and services, on the vertical axis. **(4mks)**
- (b) Discuss the implications of the following changes on the quantities of medical services and all other goods.
- (i) A movement down along the curve. **(2mks)**
 - (ii) A movement from the interior of the curve to a north easterly point on the curve. **(2mks)**
 - (iii) An increase in the quantity of labour in the economy. **(2mks)**
 - (iv) A technological discovery that increases the production of Z . **(2mks)**
- (c) (i) Explain how trade-offs might take place among the three legs of the medical stool. **(9mks)**
- (ii) If you had to choose one of the three to improve upon at the neglect of others, which would you choose? Why? **(4mks)**

QUESTION TWO

- (a) Discuss how health can be classified as a ‘consumption’ good as well as an ‘investment’ good. **(6mks)**
- (b) A study by Mark (1996) finds that not-for-profit psychiatric hospitals are no more efficient than their for-profit counterparts after controlling for quality. At the same time, the study finds that not-for-profit hospitals provide a higher quality of care as measured by the number violations and complaints received. Use the quality/quantity maximization model to explain these results. **(9mks)**

QUESTION THREE

- (a) Explain how a change in each of the following factors would alter the shape of the total product curve for medical care.
- (i) An increase in education. **(2mks)**
 - (ii) An improvement in lifestyle. **(2mks)**
 - (iii) A decay in the environment. **(2mks)**

- (b) Physician's assistants have long argued that they have ability to provide as much as 70 percent of the medical services provided by primary care physicians at much lower cost. Yet government regulations limit their ability to work independently of physicians. Explain what would happen to the level of competition in the physician services market if all the statutes limiting the activities of physician assistants were eliminated. **(5mks)**
- (c) Explain the determination of the optimal demand for health in the Grossman model based on the MEC and cost-of-capital. **(4mks)**

QUESTION FOUR

- (a) (i) Discuss the alternative compensation schemes that private insurers use to pay physicians. **(6mks)**
(ii) How may these compensation schemes affect the incentive of physician's to provide an excessive number of medical services? **(3mks)**
- (b) MRI and CT scanning facilities have been growing at a fast pace over the last decade. Consider the case in which physicians make referrals to facilities in which they have an ownership stake. Identify and describe some of the incentives such arrangements provide to physicians. **(5mks)**

QUESTION FIVE

- (a) Use each of McGuire's quality setting models to explain how a physician is likely to earn economic profits despite the implementation of price controls. **(8mks)**
- (b) Some economists have suggested that the best way to control medical costs is to remove the profit incentive for health care provider, particularly hospitals. This would involve making all hospitals not-for-profit institutions. Use the utility maximization model to explain the likely impact such a policy would have on the cost of producing hospital services. **(7mks)**

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