Your name____

Mgmt 444 Health Care Economics

Final Exam

Please follow these instructions carefully. You must answer all questions. The maximum total score is 28 points.

This is a closed book exam, except that you may refer to a two-sided "cheat sheet" as described in class. You have a maximum of 2 hours to complete the exam. (If you answer by hand, then after the time is up, you may retype your answers, provided that you do not change the content.)

The exam is due back in my office no later than **10am** on Wednesday **12/10**. If you are unable to turn the exam in by hand, feel free to fax it to 847-467-1777. Include a cover sheet and **keep a copy**. Please do not use email!

Do not open the exam until you are ready to begin.

(4 pts) 1) “The fact that neurosurgeons have to raise their fees to offset rising malpractice premiums is not necessarily a bad thing. By paying those higher fees, patients are essentially purchasing insurance.” Comment on this statement. What does it mean? Do you agree that this “is not necessarily a bad thing?”

(4 pts) 2) Recall the *New England Journal of Medicine* publication showing that higher nurse staff levels are associated with a variety of improved health outcomes. Use this information to make a business case for hiring more nurses.

(5 pts) 3) Consider a profit maximizing hospital facing downward sloping demand from one sector (call it sector P) and a fixed price from another (called sector G). Suppose that the levels of demand are such that the hospital usually sets a price for sector P that is well above the fixed price from sector G, and that it treats patients in both sectors. Show that when marginal costs fluctuate up and down by small amounts, the access burden is borne entirely by patients in sector G.

(3 pts) 4) Jack and Jane both use the statin drug Crestor, which is marketed by AstraZeneca (AZ). Both obtain the drug from the same Walgreens pharmacy. Jack is enrolled in a small HMO; Jane has no insurance and pays for AZ on her own.

Pricing of drugs like Crestor is complicated by a system of warehousing and rebates, but at the end of the day, AZ makes less money from Jack's prescription than from Jane's prescription. Why is it that a small HMO can secure for Jack a better deal on Crestor than Walgreens is able to secure for Jane?

(3 pts) 5) Offer two distinct reasons why hospital acquisition of physician practices was a flawed strategy. (One sentence per reason is sufficient.)

(2 pts) 6) The following table shows the rate of two forms of hospital integration, “systems” and “mergers,” broken out by concentration of Medicare patients in the hospitals’ markets.

	High Medicare Concentration	Low Medicare Concentration
Mergers	.25	.15
Systems	.35	.45

Are the data consistent with the relevant theories about the motives and benefits of each form of integration?

(2 pts) 7) Surgical mortality report cards tend to generate ambiguous rankings for (a) *statistical* and (b) *data* reasons. Explain.

(5 pts) 8) Indicate by circling either T or F whether you believe the following statements are true or false. (All 10 questions have unambiguous correct answers)

a) Research on cost trends suggests that any savings achieved by HMOs and other MCOs are short lived T F

b) The "sentinel effect" of utilization review suggests that doctors change their behavior if they are subjected to third party oversight T F

c) Theory and evidence suggest that larger medical groups do a better job than smaller groups of instilling incentives for member productivity T F

d) Paying a provider for performing task "A" without also paying for task "B" invariably leads to a reduction in the level of task "B" T F

e) Scanlon et al.'s study of General Motors' employee responses to HMO report cards found that HMOs with superior performance gained market share relative to plans with merely average performance. T F

f) An analysis using Chamberlin's model of monopolistic competition suggests that increased use of selective contracting will lead to continuous reductions in provider prices T F

g) Federal antitrust agencies lost recent challenges to hospital mergers because they failed to demonstrate that hospitals competed in narrow geographic markets T F

h) The theory of monopsony predicts that an insurer with monopsony power would assemble a smaller network of providers than one lacking power T F

i) The economic model of cost shifting predicts that a reduction in the rate paid by a government insurer will lead to an increase in utilization by privately insured patients T F

j) The tax exemption granted to health savings accounts levels the tax playing field between consumer directed health plans and other inexpensive health plans such as HMOs T F