

Table 1: The solutions of managed care to the problems of conventional health care

Problem	Economic concept	Managed care solution
Patient-initiated care	Moral hazard	No (HMO) or costly (PPO or PoS) out-of-network coverage
Comprehensiveness of care	(Demand-side)	Gate keepers
Physician-initiated care	Supplier-induced demand	Utilization review (including pre-admission certification or mandatory second opinions)
Agency role of physicians	(Supply-side moral hazard)	Salaried or capitation physician payments (about controlling costs, rather than quantity of care <i>per se</i>)
Asymmetric information	Adverse selection	Initial biased selection (based upon doctor attachment; not a long-term solution)
		Preferred risk selection
		Restrict coverage of pre-existing conditions
Restricted physician supply and pharmaceutical costs	Monopoly power	Bilateral monopoly and strengthened bargaining
		Reduced fee-for-service physician payments (i.e., discounts)
		Retrospective review
Patients' lack of information	Imperfect information	Hospital and physician report cards