

# Medical Care Markets

# Medical Care Market – 1

- Medical care markets differ in significant ways
  - Unpredictability
  - Asymmetric information
  - Trust
  - Barriers to entry
  - Payment practices

# Medical Care Market – 2

- In ***favor*** of government involvement:
  - Medicine is too complicated to be left to market forces
  - Medicine difficult to understand; patients rely on doctors
  - Medical care is a social good
  - Externalities in medicine, especially infectious diseases, require collective action to protect society
  - Medical care based on ability to pay is morally repugnant
- Those ***opposing*** government involvement:
  - US system has remained mostly market-based
  - Evidence of deep American distrust of federal government involvement in health care matters
  - Experience: government-run programs are costly

# Medical Care Market – 3

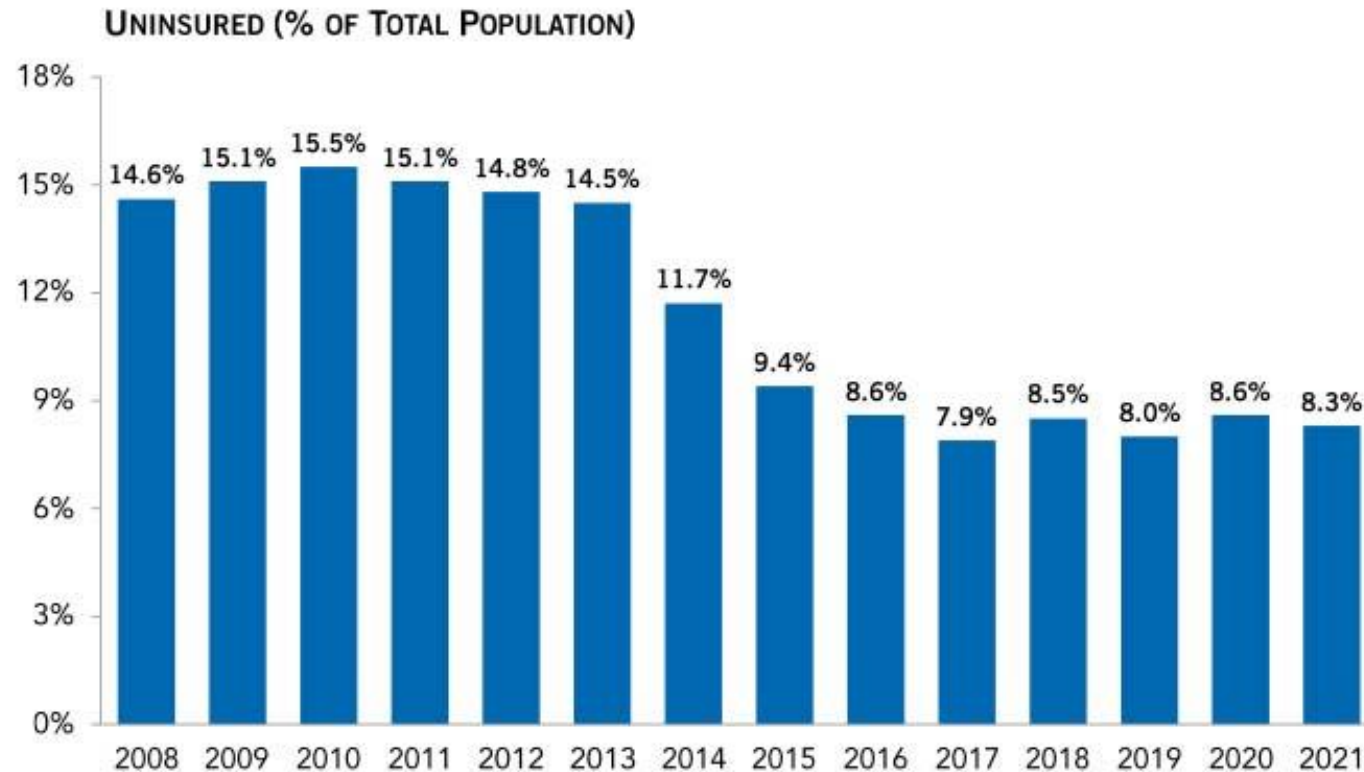
- Key factor driving health care reform debate is spending
  - Hospital care
  - Physicians' services
  - Prescription drugs, other medical products
  - Other personal health care spending
- Access to care
  - E.g., in 2012, 38 million Americans without health insurance
    - Over 38% of the uninsured were ages 19-34
  - Uninsured: no effective access to health care
  - In 2021, 8.3% (27.2 million) uninsured
- Overall medical outcomes in U.S. are relatively poor, compared with other developed countries

# Medical Care Market – 4



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The pandemic had no significant effect on the share of people without health insurance coverage



SOURCE: United States Census Bureau, *Health Insurance Coverage in the United States: 2021*, September 2022.

NOTES: Data are from the American Community Survey 2010–2019 and Current Population Survey Annual Social and Economic Supplement 2020–2021. The Affordable Care Act was enacted in 2010 and later established Health Insurance Marketplaces. Enrollment in the marketplaces started in October 1, 2013 and became fully certified and operational by January 1, 2014.

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# Commonly Cited Health Indicators

**TABLE 3.2 COMMONLY CITED HEALTH INDICATORS, 2010**

Country	Life Expectancy at Birth <sup>1</sup>		Infant Mortality Rate <sup>2</sup>	Health Care Spending (% of GDP)	Per Capita Health Care Spending <sup>3</sup>
	Males	Females			
Canada	78.5 <sup>4</sup>	83.1 <sup>4</sup>	5.1 <sup>4</sup>	11.4	\$4,445
France	78.0	84.7	3.6	11.6	3,974
Germany	78.0	83.0	3.4	11.6	4,338
Japan	79.6	86.4	2.3	9.5 <sup>5</sup>	3,035 <sup>5</sup>
Switzerland	80.3	84.9	3.8	11.4	5,270
United Kingdom	78.6	82.6	4.2	9.6	3,433
United States	76.2	81.1	6.1	17.6	8,233

Source: OECD Health Data; Health status: OECD Health Statistics (database).

<sup>1</sup>in years

<sup>2</sup>deaths per 1,000 live births

<sup>3</sup>in PPP dollars

<sup>4</sup>2008

<sup>5</sup>2009

# Market Failure

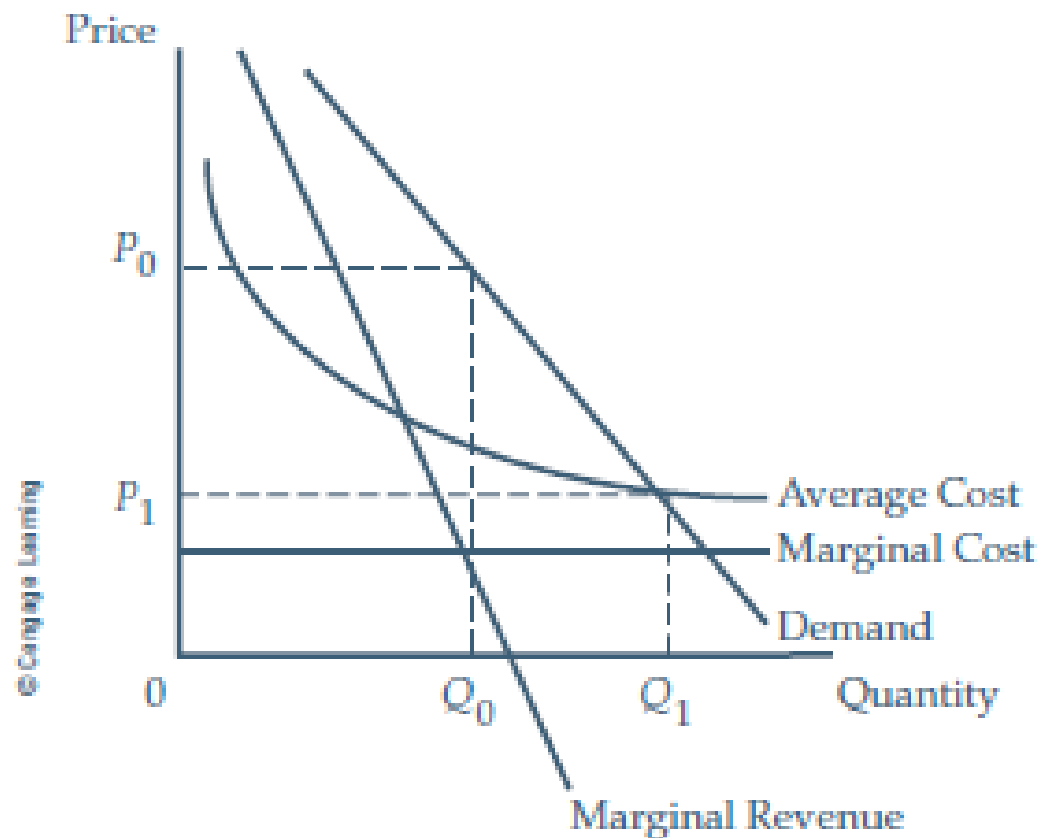
- Imperfections in medical markets increase the difficulty of delivering a product equitably and efficiently
- When underlying assumptions of relatively competitive markets are not met, markets fail to reach optimal output levels
- Markets fail to allocate resources optimally when
  - Firms have market power
  - There are externalities in consumption and production
  - When the good produced is a public good

# Govt. Intervention in Medical Markets

- Regulation
  - Price controls?
  - Entry restrictions?
  - Limits on new product development?
- Tax Policy
- Government policies and failure



# Regulating a Natural Monopoly



# Bilateral Monopoly and Monopsony

**\* In class we will spend considerable time on this figure with a lot of details and analysis and link it to US versus European pharma prices**

