Economics of Health and Healthcare

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Lecture – 24
Ideal Healthcare Market Conditions

Hello everyone. Hope you all are doing well. So in this session, we will discuss upon the market structures related to healthcare and why we do not really have a perfect market condition in terms of the healthcare market and under which circumstances we move. Generally, these circumstances prevail and move towards the market imperfection. So what should be the ideal condition, market condition in terms of healthcare market.

So this ideal market conditions if we think of in terms of a healthcare market, then there will be 5 to 6 points which directly comes to our mind.

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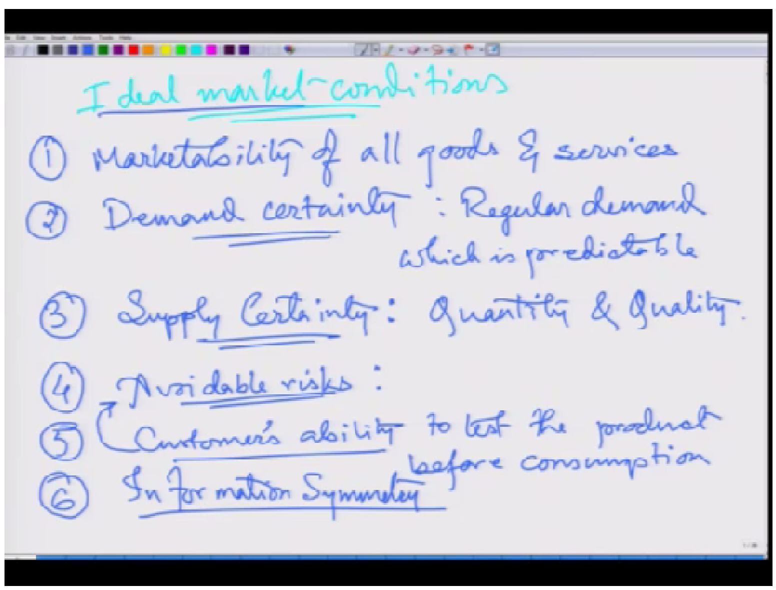

So the first point should be, so if ideal market conditions. We are talking about the healthcare market only. So it should be the marketability of all goods and services. I will change the colour. All goods and services, this means whatever is being produced or whatever is being supplied, there should be, they should be marketable. So in terms of the quality, in terms of the accessibility.

It should be marketable and every single individual who are supplying or who are providing the healthcare services, they should also be accessible and providing the same quality of care to everybody. Otherwise, if they are not, say some particular product is outdated, so it is not marketable, so it is not a perfect condition. And then the second one is that a particular is so poor in terms of his treatment or her treatment that nobody prefers to go to him.

So they have a very bad reputation. In terms of a doctor, in terms of a clinic, in terms of a hospital. So marketability is of all the products or the services are not generally ensured. So this is not an ideal market. So in an ideal market, every single healthcare provider or healthcare product, should be marketable. Number 2, is demand certainty. There should be a regular demand which is predictable.

That means the healthcare providers have clear idea that what is the number of patient's footfall in the hospital or to a doctor, what kind of diseases happening or prevalence of any particular disease. They really do not consider if there is certain weather calamities, some tsunami or some major accident. So or even if that the proportion of affected pupil is not really very large so that the demand changes in a massive way.

So the markets do not function really accordingly at the best of their level. In that way in a perfectly ideal market condition, the healthcare providers should have a clear idea about the demand from the or for the health services from the patients or from their potential customers. The third is, supply certainty.

Customers or the patients have clear idea about the medicines, about the vaccinations, about the doctor's availability, different kinds of doctor's availability, about the diagnostic facilities around, about the insurances schemes, the coverages of insurance schemes and they know that when I require that, all these facilities are around me. I can avail them.

So there is the supply certainty. And when we are talking about supply, it is not essentially be the number because in the first point, we have talked about marketability of all goods and services.

So even if the supply is there and then the quality is compromised, in that way the supply certainty is also being compromised because even if the supply is there being the product or the service of poor quality, nobody is interested to go.

So they have lost its marketability. So the supply certainty not only talks about the quantity, it also talks about the quality of the services available for that particular population. The next is avoidable risks. This avoidable risks means that whether people, both the suppliers as well as the consumers know that how I can avoid the risk or how I can get away from a particular disease or from a particular healthcare adversity.

So this is from the consumer's point. From the suppliers' point, they also should know that how in terms of the services, how the service failures can be avoided so that if the service failure can be avoided then this quality is being insured. The quantity in terms of the demand is being ensured, that they know that if my reputation is not being hampered by a certain casual mistake, then probably I will certainly get the, I have a clear idea about my demand.

So the demand really does not vary much. They have retained their market or they have been improving. So they know that I will be improving. So it is like that. So risks can be avoidable. So the people have the knowledge, have the idea about the operations, have the knowledge about the markets from both the demand and supply perspectives, have the idea about the future.

So they know that how, what will be the based optimal decisions to avoid these kinds of risks which actually lead to an uncertain demand and supply and then inefficient production and its inefficient consumption. And there are no such problems in terms of that moral hazard or an adverse selection. So after avoidable risks, because when we talk about avoidable risks, we talked about the quality idea, about the quantity.

So here we will in a perfectly competitive market when we talk about an ideal market condition, we will know that perfectly competitive market gives us an efficient output, right. So to attain that efficient output because when we talked about 6 building blocks, universal health coverage, we talked about quality a lot. So it is all about accessibility, affordability and quality, right. And people should have understanding about the quality, about the services they are being provided, right.

So when we talk about the services, so it is like customer's ability or the consumer's ability to test the product before consumption, yes. And it also leads to avoid the risk. Because once they are into the system, they cannot. So the customer's ability to test the product before consumption even if they do not have an idea. I go to a sweat shop, they can say that okay you can test the sweat and then you can take.

So just test one sweat in a supplement or you want to go to get some namkeen, get some aachaar, so they will always offer you 1 chamach of these. Yes, because you do not have probably the clear idea and you have the ability to test the product before you consume, before you buy. Because healthcare is often an irreversible one, right or if I have made a wrong choice, I have made a wrong decision and if the treatment is wrong, it has a negative impact.

So my health stock may go down, my health status may go down further, yes. So that is really loss, not nice. So the number 6 is information symmetry. So everybody has a perfect information. Everybody, both the supplier as well as the consumer have. The consumers often do not have any idea about what the suppliers are providing, what the healthcare providers, because the doctors are god and then whatever the doctor say, we follow that, right.

And we really do not know that what is their motif behind that entity, if there is a uncanny profit motif, right, business motif behind the decisions they are making and we are the guinea pigs. We really do not have any idea. Secondly, the doctors should also know that what the information, the consumers, the patients are providing to them, they are right. It can be the doctor; it can eventually be their insurance.

If you remember in insurance, the adverse selection, right. So when the insurance companies want to go for the cherry picking, yes they want the healthy ones and then somebody have always been healthy. I have followed all healthy habits. So there they make an adverse selection. And even if there is no adverse selection by the cherry picking, there is a debt spiral, right. So this information asymmetry is not really an ideal market condition.

So in an ideal market condition, I have information about the hospitals, about the diagnostic center, about the medicines, about the doctors so that I make my best choices when I make my choices that is based on by demand, is based on my utility, right. My diminishing marginal utility determines my demand curve. So my utility, my satisfaction will be best derived when I have my information.

Similarly, the doctors, when they have idea or the hospitals, when they have idea or when they know that the consumers or when the insurance companies know the consumers or the customers are providing them the best or correct information, then their decision making, their treatment process, their policy sales are on an efficient way. So there is no wastage. So that is another information symmetries, another condition towards market efficiency.

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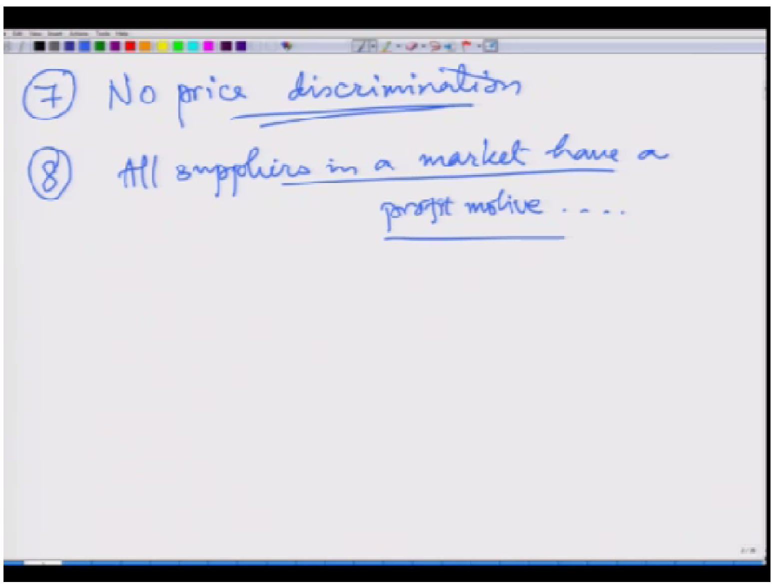

The next one can be no price discrimination. That means all the consumers are being charged the same price, no price discrimination. All the consumers are paying whatever the rich is paying, the poor is paying the same, what the particular. What you are paying for a particular hospital, you are paying the same in another hospital. So there is no price discrimination basically for the same product.

Yes, and if there is no price discrimination because often we do not have idea because you know in a perfectly competitive market, there is no product differentiation. If there is no product differentiation, logically there cannot be differential price, right. And when there is no again market fragmentation, no segmentation of the market, so there is no point that why there should be a price discrimination.

If there is no societal objective behind this price discrimination that I will keep the price lower for a certain population but that is also not right. Because whenever we are in an ideal market, in a perfectly competitive market, mostly then there is no profit no loss context. And if a person is producing or supplying in a lower price, there can be 2 issues. One they are making losses, yes. And then even if they can draw all the customers towards them, the others will also lower the price.

Again that will be distributed and everybody make losses. So the price will again go up, number 1. Number 2, then there can be one condition because as there is no product differentiation, lowering the price may make a sense that the quality of the product is degraded, right. That will send message like that. Otherwise, nobody giving the same product, same quality product will really not or will really not be able to decrease the price and sustain in the market, yes.

So eventually there is no price discrimination possible or allowed. Eighth one or the last one that all the suppliers in a market have a profit motif, a very important one that if they have a profit motif, how they can, it can be an ideal market, right. Because if there is a profit motif, everybody would like to be a price taker, sorry price setter, not a price taker. Everybody would like to differentiate based on their product.

Now a very important aspect in terms of healthcare. When we talked about why they all want to be a profit, they will have a profit motif, first thing is that. The healthcare market, in most of the cases, if not cube or something like that, most of the cases, this is a mix of public and private. If it is a mix of public or private, even if there is private clinic may be paid by the insurance or some government agencies or by the government, the private clinics or the doctors are their price setters and everybody will have a their rational by nature.

So they have a profit motif. So this starts with the economic concept of rationality. So they are rational, so they have a profit motif, right. Now healthcare market is fragmented. It is very very heterogeneous and the product differs from places to places, population to population, the services differ from places to places, to population to population and therefore, and often we have found it is not very easy to quantify a healthcare product.

So often we have found the service or the good or the commodity, healthcare commodity if we can consider as single good or single service, they still are different in terms of quality, yes. And if there is a differential even, they may not be a perfect substitute. They can be little close substitute like we have seen in monopolistic competition. They can be close substitute but then there is little chances even if little, chance for these providers to set their own price, yes.

Eventually in the long run we have seen that it can come down. The demand curve finally becomes tangential to average cost curve where the price and then the cost, average cost and then the price are the similar point, right. So there is no profit basically in the long run. But in the short run, they have a profit motif. Thank you.