

- 3 As more countries are facing economic difficulties and an ageing population, some governments have sought to increase competition within the healthcare sector to reduce its cost while others are reducing subsidies to prevent their healthcare spending from escalating.

Discuss the economic case for the different approaches mentioned above. [25]

#### **Suggested outline**

i) Explain up to 3 sources of market failure in healthcare market

- positive externality in consumption with diagram
- imperfect information
- the market dominance, equity or factor immobility

\*clear explanation on how each causes lead to market failure

\*government failure in resolving efficiency caused by fiscal deficit and debt is acceptable

ii) Objectives of government intervention

iii) Body 1: Case for increase in competition

- rising healthcare cost attributable to inefficiencies in the SS of healthcare. Inefficiencies could arise from market dominance by private firms e.g. likely operate under oligopoly → possibility of collusion among healthcare providers → exploitations → welfare loss → inefficient allocation of resources or cause by red-tape in government-run healthcare providers. These made a competitive market an effective solution.
- rising healthcare cost due to DD factors but is significant enough to have secondary impact on + increasing fiscal deficit → need to cut spending → further contractionary impact on economy → worsen economic growth and employment + reduce tax revenue → vicious cycle + inaccessibility of healthcare by lower income group

Although caused by demand factors, it is a long term DD problem. Hence, a more competitive supply could help curb the problem of rising healthcare cost.

- Trend of ageing population → continue to strain the fiscal balance of countries → government spending need to be managed or face the consequence of large debt. Hence, between the two policies, subsidies need to be reduced or controlled. However, might lead to other serious issue of lack of access to healthcare of lower income group or a less productivity workforce.

iv) Body 2: Case for reducing subsidies

- effectiveness of subsidy over policies to promote of a more competitive market especially where there exist significant conflicts with equity
- if fiscal deficit due to excessive spending in other social aims e.g. overly generous unemployment benefits → should tackle root cause and not reduce subsidy on healthcare
- harmful effect of excessive competition (argument from Monopolistic Competition)
- high MES → likely operate under oligopoly → possibility of collusion among healthcare providers → high exploitation or higher unit cost if operate on a smaller scale.
- increasing competition under situation of imperfect knowledge by consumers might lead to exploitation by healthcare providers to maintain profits

v) Possible Evaluation

- Considers differing fiscal balance and causes of fiscal deficit among countries → policy response differs. In many developed countries that relied mostly on 3rd party healthcare payment e.g. insurance or common pool of public funds, there exist excessive demand for healthcare that significantly outpace supply. Either increasing competition or reducing subsidies might not lead to a better outcome. Alternative policy such as regulation that requires patients to co-pay for healthcare treatments might be more effective.

- To tackle of imperfect information, government could regulate to improve make information of treatment and cost more readily available to patients is more effective.

Level	Knowledge, Application, Understanding and Analysis	Marks
L3	For a well-developed answer that explains a range of causes of market failure associated with healthcare as well as the use of economic analysis to explain differing reasons on a possible change in policies.  Max. 15m for an in-depth but limited range of causes and reasons.	15-21
L2	For an underdeveloped answer that explains causes of market failure and reasons on a possible change in policies.  Max 9m for a one-sided answer that covered either approaches.  Max 12m for an answer that covered causes and both policies that are relevant to healthcare market but limited attempt made to answer the question.	9-14
L1	For a brief answer that covered causes and policies related to healthcare market but contained several conceptual errors.	1-8
<b>Evaluation</b>		
E2	Economic justification on the different criteria / factors that influence policy responses.	3 – 4
E1	Unexplained judgement.	1 – 2