

Version A

1.(a) MC = \$150 million (vaccination).

MB = \$200 million = \$100 million (lower med costs & lost productivity)
 + \$100 million = 2000 × \$50,000 (QALYs saved)

Favor vaccination as MB > MC.

(b) Incremental cost = \$50 million

= \$150 million (vaccination) – 100 million (lower med costs & lost prod)

Incremental cost per QALY = \$50 million / 2000 = \$25,000 per QALY.

(c) Answer depends on value placed on detecting cancer

e.g. If \$100,000 then 3 tests are best since \$49,150 < \$100,000 but \$469,354 > \$100,000.

2.(a), (b) See over

(c) Answers include health status; education (or age)

3.(a) False Range is \$1-10 million.

(b) False Price elasticity is approx -0.1 or -0.2 (less than 1 in absolute value).

(c) True

(d) True Rate of return is around 15-20%.

(e) False Price where MCL curve crosses labor D curve.

But price off labor S curve which is below MCL curve. So lower wage.

(f) False VA hospitals are funded on a global budget.

4.(a), (b), (c) See over

5.(a) Good: discourages overservicing. Bad: encourages shirking by doctor (does not work hard).

(b) Good: Encourages keeping costs down. Bad: May lead to inferior quality.

(c) Good: Encourages innovation. Bad: Leads to high prices for drugs.

Multiple choice

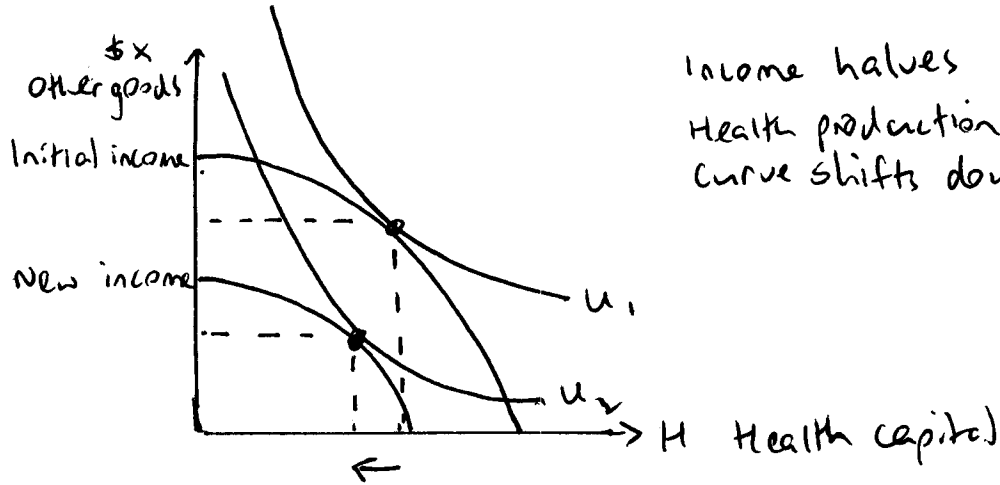
Question	1	2	3	4	5	6
Answer	b	c	d	a	b	a

Scores out of 36

Curve (Indication only: Course Grade is based on Total Score!)

75 th percentile	30.5 (85 %)	(Ave GPA 2.68 on this curve)	C+	26.5 and above
Median	28 (78 %)	A	C	25 and above
25 th percentile	25.5 (71 %)	A-	C-	24 and above
		B+	D+	23 and above
		B	D	21.5 and above
		B-	D-	20.5 and above

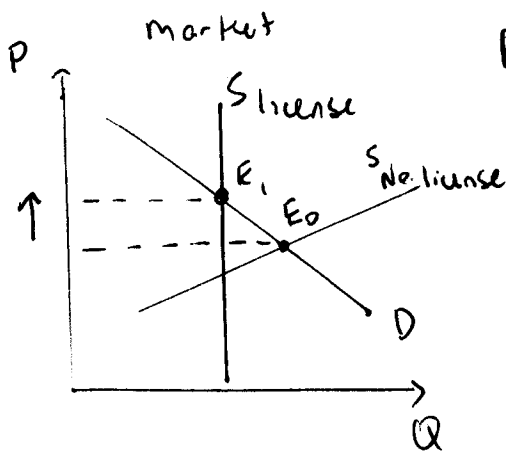
2(a), (b)



Income halves
Health production possibilities
curve shifts down and in.

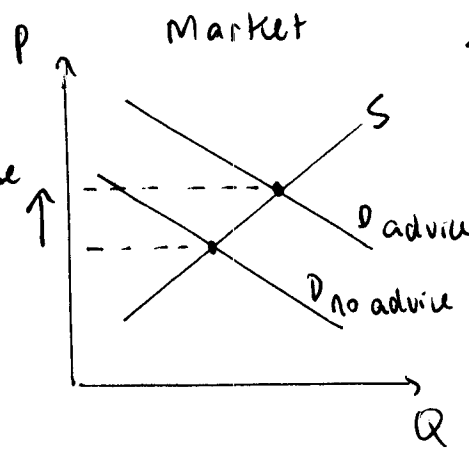
As drawn, spending on medical goods down because $H \downarrow$ which must be due to less medical goods purchased.

4. (a) Licensing

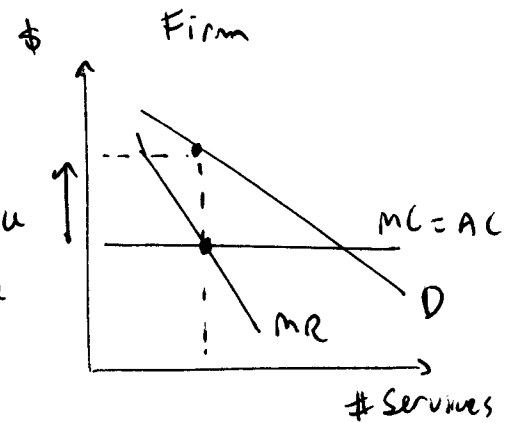


Supply curve moves in with license.
Equilibrium price \uparrow

(b) Physician-induced demand (c) Monopoly Power



Demand curve shifts out as doctors advise patients to visit more often than they would
Equilibrium price \uparrow



The doctor faces downward sloping D.
So $MR < price$
Setting $MR = MC$ gives lower Q and higher P.