

Supply and demand of the health care industry economics essay

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ECO 332 Jeff Nash Professor Hanna Sanko Americans have become significantly dependant on the health care services which have been developed and provided within the United States. But is it economically working as it should? Is it a self-balancing economic environment that allows the healthy tension of supply and demand to ensure that costs remain low because the consumer drivers the demand; or, is it out-of-balance, costing tax-paying Americans billions of dollars each year because of an upside down supply and demand chain. I believe it is upside down and economically does not create market equilibrium. But this is only one side or part of the Health Care crisis in America. The affect of this upside down supply and demand is that a majority of the costs which some say are around 80% of the entire industry come from erroneous and/or unneeded care and this is where the rubber meets the road with this problem. That the same people within the industry who are offering the supply are also driving the demand with little to no regard or understanding to the wishes and requests of those suffering with physical ailments and this is where the economic crisis begins. And the care that is provided is only prolonging the symptoms and not resolving the problems, costing billions of dollars each year to tax payers, and leaving tens of thousands to hundreds of thousands of dollars to the families with little to no confidence that the actual problem has been diagnosed before the treatment is given. Something needs to change, we need an effective Health Care reform solution in America to correct this crisis. Health and immorality really is not part the definition of the scarcity chain when discussing key economics principles. Scarcity, as it relates to economics, is our inability to get anything and everything we desire and

wants to have in life; and with that definition there comes inferences, such as products and service that transcend beyond the laws of nature, physical limitations and even the absurd. Scarcity in economics assumes normal boundaries of operation within life even though there becomes an inability to obtain such things. In the textbook *Microeconomics* (Parkin, 2011) by Michael Parkin, he defines economics as; " Economics is the social science that studies the choices that individuals, business, governments and entire societies make as they cope with scarcity and the incentives that influence and reconcile those choices." [i] I do not believe that the health care policies toward professional care provided for patients and their families is being reconciled economically as Parkin has defined as a healthy part of basic industry economics. He goes on to define the study of specific or isolated industries as Microeconomic, which is; " the study of the choices that individuals and businesses make, the way these choices interact in markets, and the influence of governments." [ii] The microeconomics of the Health Care industry is not inherently working which is costing Americans billions of wasted and extra dollars each and every year. Interestingly, Pakistani Doctors; Dr. J Ahmed and Dr. BT Shaikh wrote an article for an Iranian Public Health magazine in 2009 [iii] which describes this same problem in other countries, they said; " It is hypothesized that variations in treatment charges are observed to a larger extent because of differences among physicians in their diagnosis of patients or in their belief in the value of the procedures for meeting the patient's needs. This is how treatment to be prescribed is determined. Other factors such as the professional uncertainty, payment systems, physician density and the market competition are also involved

that do not value patient's needs and affordability." [iv] This is primarily because of one key component; the violation of both of the laws of the supply and demand chain which creates an upside down model and unbalance economically, or no market equilibrium. The law of supply says that; " Other things remaining the same, the higher the price of a good, the greater is the quantity supplied; and the lower the price of a good, the smaller the quantity supplied." [v] (Parkin , 2011) The quantity supplied as referenced here has to do with the amount of a goods or services that is able to be performed and/or produced during a period of time for a predetermined price. Supply is the sum association connecting the price, not necessarily the value, of a good and the quantity actually supplied. In the health care industry, this is where problems start to get the economics off track. The law of demand says that; " Other things remaining the same, the higher the price of a good, the smaller is the quantity demanded; and the lower the price of a good, the greater is the quantity demanded." [vi] (Parkin , 2011) As a result price and demand create a healthy balance when the two are in opposition toward one another if they consist of two different driving forces. In the health care industry, the hospital systems which include the doctors are both supply and demand because they encourage demand and set their own pricing structures. Demand, like Supply described above, defines the total association connecting the price of a good and the quantity demanded of that good. The difference between the definitions of supply and demand is pressure toward quantity either for supply by manufacturers or demand by consumers in a healthy market. When the suppliers are also creating demand it generates what is called Supplier Induced Demand, also

known as SID. This is an economic term (SID) which occurs when there is a significant irregularity of experience, knowledge, and/or information that occurs between those who are the "suppliers" and those who are expected to be the "consumer" or demand. If the suppliers use their advanced experience, knowledge, and/or information to persuade the consumer to demand a greater quantity of the goods and/or services which they themselves supply (see graph below) then an imbalance in the supply and demand chain is created.

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" In health economics, supplier induced demand (SID) can be defined as the amount of demand that exists beyond what would have occurred in a market in which patients are fully informed." [viii], according to Gerald Donaldson. He continues on to describe how the health care physician acts more like an agent than a stereotypical doctor who represents both the care and information provider on behalf of the patients trying to lead them to make treatment decisions. This type of relationship is too often influenced by asymmetry information between a physician and a patient. Two Australia doctors wrote that; " Asymmetry of information can also be influenced by the physician's own clinical experiences, expertise, and professional judgment as sometimes a patient will request their physician's personal opinion to aid them in making a healthcare decision." [ix] In a perfect world, Sherman Folland says that; " A physician who is a " perfect agent" is one who would make recommendations for a patient that the patient would make for themselves if they had the same information." [x] However, as a result of operating in an imperfect highly capitalistic world, the phenomenon of SID

thrives because of the collapse of what was meant to be a trusted and healthy economic relationship between the supply and demand of health care. However, more often than not, especially in life threatening and serious circumstances due to the high emotions and many times irrational thinking, a physician recommends to a patient or the patient's executor to undergo more care than is required for their diagnoses and treatment, its approved because our faith and hope is placed heavily on each word and expression made by the care giver. And according to the percentages, its does very little and in many cases, no good for the patient and only prolongs the problem. The contrast of this topic is shown below.

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Dr. J. Ahmed and Dr. BT Shaikh go on to says that; " Health economists look towards health care sector as a market whereby there is a distinct demand and supply phenomenon exists. Dearth of regulation of the doctors' practices lead to inappropriate and unjustifiable demand for health care among the patients. In developing and under-developed countries, this adverse practice may push a poor family into a vicious circle of poverty and illness, especially where out of pocket expenditure on health is too high. Unnecessary prescriptions, pro-longed treatments and unjustified user fee grossly deprive the patient's family financially. In developed countries, the flourishing health care technology and sophisticated laboratory diagnostics could incur significant expenditure which is sometimes even not covered under the insurance. State is the custodian of health care in any country; therefore, vigilant regulation of the health care providers may curb the supplier induced demand through strict laws and policies." [xii] So is there an internal

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fix to the wasted treatments and the upside down supply and demand chain in the Health Care industry and if so where does it come from so that we save the billions of dollars that are charged every year by doctors who misdiagnose and mistreat their patient's ailments. Shannon Brownee (Author of the book titled: OverTreated: Why Too Much Medicine Is Making Us Sicker and Poorer) states that; " We spend more than any other country on health care, but we're not healthier for it, partly because so much of the care delivered here is unnecessary." [xiii] Also she stated that; " As much as \$312 billion is frittered away each year when patients are misdiagnosed or given the wrong treatment." [xiv] One solution that would significantly help is provided by a company called; Best Doctors, which allows the consultation of diagnoses and/or second opinions be offered by their group of specialty doctors. One company found some amazing results and instant savings of several hundred's of thousands of dollars the first year. They said; " EMC Corporation, a large technology firm in Hopkinton, Massachusetts, consulted Best Doctors on 60 cases in its first year using the program. Diagnoses were changed in 15 percent of those and treatments were modified in 85 percent, resulting in \$500, 000 in savings. " If everyone got the right diagnosis and treatment the first time," says Evan Falchuk, president of Best Doctors, " we could save tens of billions of dollars and an untold amount of unnecessary suffering and give millions of people the best chance to get well." [xv] Another solution to fix this problem is in the hands of the American tax payers. We do not need to continue to accept the disharmony within the supply and demand chain of the Health Care industry. We can make the change if we speak up and question the process, demand correction and

become more educated and make better decisions with our own primary care physicians when it comes to our own diagnoses and treatments. I believe this will start the change toward the needed competitive constraints that hold the healthy balance between supply and demand in the Health Care industry. Dr. Apurv Gupta has much hope and optimism over this topic. He co-founded the Physician Performance Improvement Institute which assesses hospital and clinical data to help improve performance of service and eliminate misdiagnoses and treatments which ultimately create a stronger tension and equilibrium between supply and demand. But he states that his company can not do it alone, he does not believe; " that the health-care system will truly change without increased outcry from society. Ultimately, the change will come from the public — when the public gets so fed up they are not going to take it any more." [xvi] In conclusion, the Health Care industry which has become so dependant upon by millions of American citizens has an out-of-balance system and has an upside down supply and demand chain which does not create market equilibrium that ultimately wastes billion upon billions of dollars each year. These billions of dollars are wasted due to misdiagnose and mistreatments because the people who are the supply are also acting as the demand. This Supplier Induced Demand is where the problem has to be corrected. A shift in tension has to move back toward a more healthy resistance between the supply and demand in the Health Care industry then what we experience now. Doctors and patients have the resources at their disposal if they change their way of thinking and choose to change the system. Reform is possible and within reach, however, we must want the change and collectively we must move toward making it a

reality before we find ourselves in even more national and personal debt with an economic environment that is irreversible. It starts with us accepting the reality that we can make a difference if we speak up and ask the right questions to our Doctors and ask our government to assist with appropriate reform policies. Reform policies which force the industry to put more resistance between the supply and demand chain to help eliminate Supplier Induced Demand and encourage opportunities for hospitals and clinics to use outside specialists to offer second opinions and assistance more. We should not be relaying solely on our government for this change and expecting them to do all the work. We all have the information and ability at our disposal to help correct this, the real question lays within each of us; " will I help be the change that is needed to correct this crisis?"