This is a sample of the instructor materials for *Health Economics: Core Concepts and Essential Tools*, by Steph Bernell.

The complete instructor materials include the following:

- A test bank
- PowerPoint slides for each chapter
- Course lesson plans

This sample includes the course lesson plan materials and PowerPoint slides for Chapter 6, "Perfect Competition and Other Market Structures."

If you adopt this text, you will be given access to the complete materials. To obtain access, e-mail your request to hapbooks@ache.org and include the following information in your message:

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# Unit 6: Perfect Competition and Other Market Structures

## Unit Outcomes / Unit Learning Objectives

UO 5: Evaluate the various ways to characterize the healthcare marketplace.

- Explain the various ways to characterize a market structure.
- Compare the characteristics of the healthcare market with those of a perfectly competitive market.
- Describe how an oligopolistic and monopolistically competitive market structure relates to healthcare markets.
- Evaluate the market structure of the pharmaceutical industry.
- Describe the trade-off between efficiency and equity in the healthcare market.
- Use a basic supply-and-demand model to explain the societal benefits and the associated losses of externalities.
- Apply the general supply-and-demand model to public health and health system issues.
- Explain how the monopoly and monopolistic competition market structures can be used to understand health economic issues.

## Readings

Read: Chapter 6

## ➢ Content Outline, Session 1: Types of Market Structures

### *Unit Objectives*

- Explain the various ways to characterize a market structure.
- Compare the characteristics of the healthcare market with those of a perfectly competitive market.
- Describe the trade-off between efficiency and equity in the healthcare market.

### *Topics*

✓ ***Estimated Time: 15–20 min***
✓ ***Resources: Instructor PowerPoint slides, Chapter 6: Slides 1–9***

- Types of market structure
- Perfect competition
- Assumptions of perfect competition
    - Determining profits in the short run

### *In-Class Discussion*

✓ ***Estimated Time: 15–20 min***

- Which of the types of market structure are you familiar with?
- What are the advantages and drawbacks of perfect competition?

### *In-Class Activity: Perfect Competition*

✓ ***Estimated Time: 15–20 min***

- Instructor Note: Divide students into groups.
- Each group should discuss the characteristics of perfect competition.
    - Give an example of perfect competition
    - Make a list of advantages and disadvantages of perfect competition.

**Note:** For online courses, have students complete this activity using the available technology of your choice (e.g., through a discussion board or in a video or text chat).

### *Follow-up Activity: Discussion*

- Reconvene the class to present their examples for further discussion.

## ➢ Content Outline, Session 2: Other Market Structures

### *Unit Objectives*

- Explain the various ways to characterize a market structure.
- Describe how an oligopolistic and monopolistically competitive market structure relates to healthcare markets.
- Evaluate the market structure of the pharmaceutical industry.

- Describe the trade-off between efficiency and equity in the healthcare market.
- Use a basic supply-and-demand model to explain the societal benefits and the associated losses of externalities.
- Apply the general supply-and-demand model to public health and health system issues.
- Explain how the monopoly and monopolistic competition market structures can be used to understand health economic issues.

***Topics***

- ✓ ***Estimated Time: 15–20 min***
- ✓ ***Resources: Instructor PowerPoint slides, Chapter 6: Slides 10–21***

- Other market structures
    - Monopoly
    - Duopoly
    - Oligopoly
    - Monopolistic
- Pharmaceutical industry

***In-Class Discussion***

- ✓ ***Estimated Time: 15–20 min***

- Your textbook states that healthcare markets are not perfectly competitive. What are the reasons?

***In-Class Activity: Other Market Structures***

- ✓ ***Estimated Time: 20–30 min***

- Divide students into groups. You can assign each group of students a different market structure (i.e., duopoly, oligopoly, etc.).
    - Give a specific example of one of the other market structures.
    - Give examples of how this market structure affects concepts such as price, competition, or demand.

**Note:** For online courses, have students complete this activity using the available technology of your choice (e.g., through a discussion board or in a video or text chat).

***Follow-up Activity: Discussion***

- Reconvene the class to discuss their examples.

## ➢ Outside of Class Work (Homework)

***Affordable Care Act***

- As of July 2015, 29 states and the District of Columbia had expanded their Medicaid programs as directed by the Affordable Care Act of 2010. Using

economic tools and economic reasoning, describe the effect this change may have on the physician services market and the hospital services market as well as on the individual firms supplying medical services. Explain and show your answer graphically. Be explicit in your assumptions, and label all parts of your graphs (Bernell, p. 134).
    - UO: Apply the general supply-and-demand model to public health and health system issues.

### *Discussion Board Questions*

- Explain the monopoly, duopoly, or oligopoly market structures using real examples from the healthcare industry. Hint: Look through the newspaper and other credible news sources for articles related to mergers or acquisitions (Bernell, p. 134).
    - UO: Describe how an oligopolistic and monopolistically competitive market structure relates to healthcare markets.
- In what ways does the concept of competition in healthcare differ from other industries? Consider the differences in terms of cost, access, and quality. Give specific examples to support your view.
    - UO: Explain the various ways to characterize a market structure.

# Chapter 6

## Perfect Competition and Other Market Structures

# After mastering this material, students will be able to

- Explain the various ways to characterize a market structure.
- Compare the characteristics of the healthcare market with those of a perfectly competitive market.
- Describe how an oligopolistic and monopolistically competitive market structure relates to healthcare markets.

# After mastering this material, students will be able to

- Evaluate the market structure of the pharmaceutical industry.
- Describe the trade-off between efficiency and equity in the healthcare market.
- Use a basic supply-and-demand model to explain the societal benefits and the associated losses of externalities.

# After mastering this material, students will be able to

- Apply the general supply-and-demand model to public health and health system issues.
- Explain how the monopoly and monopolistic competition market structures can be used to understand health economic issues.

# Types of Market Structures

# Perfect Competition

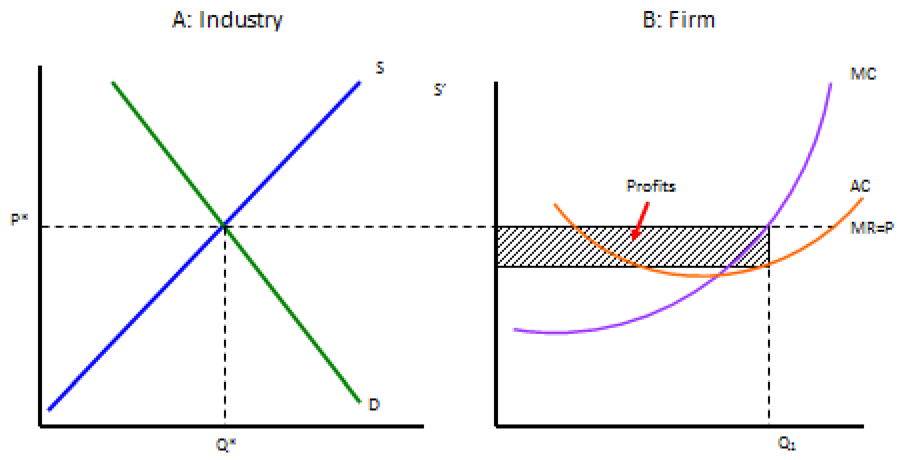
The conditions under which perfect competition operates include the following:

- Many small firms
- Many individual buyers
- Freedom of entry and exit from the industry
- Homogeneous products
- Price takers
- Perfect knowledge
- No externalities
- Zero economic profits

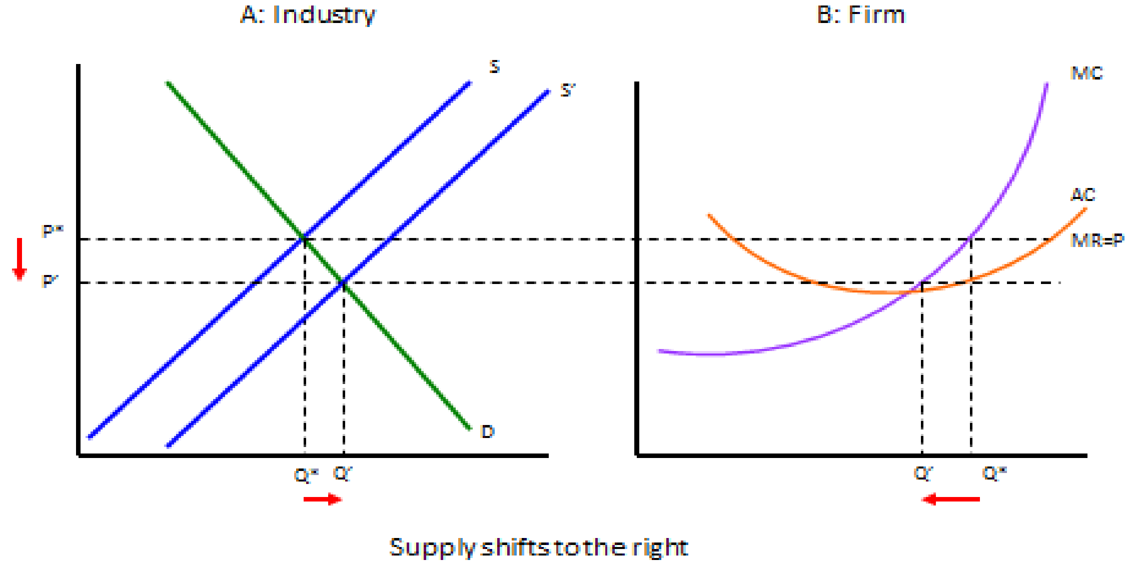
# Specific Assumptions of Perfect Competition to Consider

- Large number of firms sell identical goods or services.
- Each firm holds a very small market share, so no one firm is a leader in the market.
- Every firm in this market structure is a price taker.
  - A firm cannot set a price that is different from that of its competitors.

# Determining Profits in the Short Run



# Entry of New Firms into the Industry Drives Down Profit



# Other Market Structures

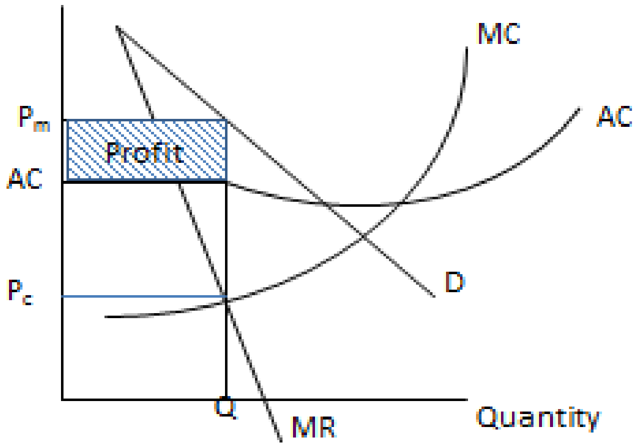
Sometimes, the seller has the market power to influence the terms of the exchange (price and quantity). This situation occurs in the following market structures:

- *Monopoly*, a market with only one seller
- *Duopoly*, a market with two sellers
- *Oligopoly*, a market with a few sellers
- *Monopolistic competition*, a market with many sellers

# Monopoly

- One seller
- Can set a fairly high price, as there are no competitors to drive down price
  - Determined by elasticity of demand
- Lower quantity of goods or services than would be produced in a competitive market
- Higher price than the equilibrium price in a competitive market
- Higher profit level for the firm

# Monopoly



# Duopoly

- Two sellers
- Price is lower than in a monopoly structure, but higher than it would be in a perfectly competitive market.
- Equilibrium quantity is shared between the two sellers.

# Oligopoly

- “Competition among the few”
- Each firm produces goods or services that are similar but are not considered perfect substitutes for each other.
- Each firm can influence the competitors’ market shares.

# Oligopoly Characteristics

- Interdependence
- Reliance on advertising
- Demand uncertainty
- Product differentiation
- Sticky prices

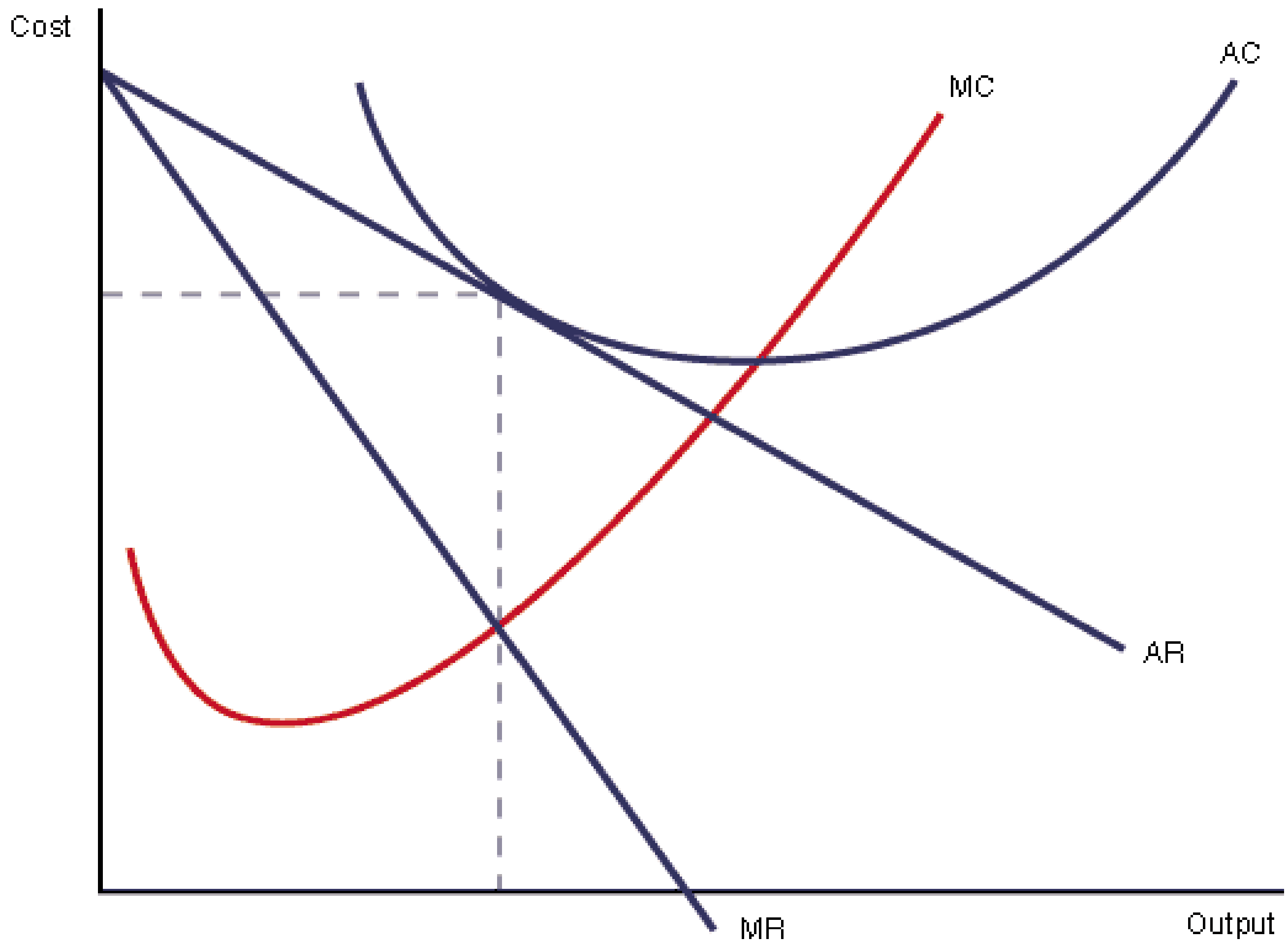
# Monopolistic Competition

- Product differentiation—heterogeneous products
- Many buyers and sellers
- Not cost minimizers
- Price setters

# Monopolistic Competition

- A monopolistically competitive firm can earn a profit in the short run.
- Higher profit levels lead to
  - more providers entering the market to try to reap some of the potential profit, and
  - existing providers further differentiating their products to attract more customers.

# Long-Run Monopolistically Competitive Firm



# Healthcare Markets Are Not Perfectly Competitive

- Imperfect information
- Uncertainty
- Product differentiation
- Barriers to entry
- Externalities

# Pharmaceutical Industry Example

- There are two types of pharmaceutical companies:
  - firms that engage in R&D (research and development) to produce brand-name drugs, and
  - firms that manufacture generic drugs.
- Patent protection of a drug serves as a legal barrier to pharmaceutical firms entering the market.

# Pharmaceutical Industry

- The pharmaceutical market is often used as an example of a monopoly or oligopoly.
  - The price consumers pay for a new drug is much higher than the drug's cost of production.
  - The more innovative the drug and the fewer close substitutes it has, the greater the price markup over costs.