

1

2. The state Medicaid agency has set a rate of \$5.50 per visit for all Medicaid enrollees who visit a physician. Each physician also has private paying patients. The demand curve for each physician can be characterized as follows, and physicians can be regarded as individual monopolists.

<u>Out of pocket price</u>	<u>Quantity of visits demanded</u>
\$8	0
7	1
6	2
5	3
4	4
3	5
2	6
1	7

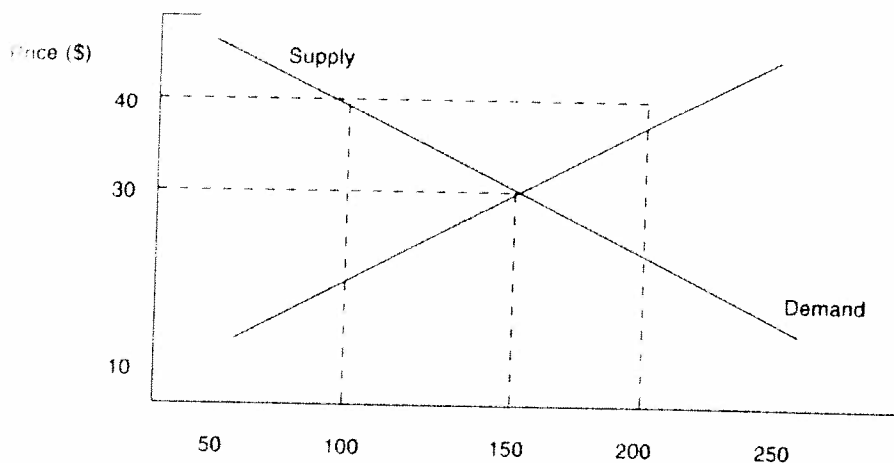
Each physician also has a cost schedule that can be characterized as follows:

<u>Quantity of visits provided</u>	<u>Total cost</u>
0	\$5
1	7
2	11
3	17
4	25
5	35
6	47

- a. If each physician is a profit maximizing provider, how many visits will he/she provide to public and private patients?
b. What will the number of visits provided be if the Medicaid Agency lowers its rate to \$3 per visit, but the demand remains the same?

2

8. The equilibrium price for physiotherapy visits is \$30 and the quantity utilized is 150 visits as a result of the demand and supply conditions in this diagram. The state legislature is concerned that the current price does not



give the physiotherapists enough incentive to produce a high volume of services. A proposal has been made to increase the price paid by the consumers to the suppliers to \$40. What will the resulting quantities demanded and supplied and the resulting utilization be?