2015 PJC H2 Econs P1 Q1

Suggested Answers

(a) **(i)** Explain the difference in the public health expenditure per capita between Singapore and UK. [2]

1 mark for difference and 1 mark for explanation of the difference

Singapore lower than UK (1)
Singapore practice co-payment while UK provide healthcare free of charge.(1)

(ii) Explain the impact of higher public health expenditure on the potential growth of a country. [2]

1 mark for a descriptive answer
2 marks for an analytical answer that shows the causal link of higher public healthcare to AS and potential economic growth.

Public health expenditure → higher life expectancy → larger labour force → increase qty of fop → higher AS → higher potential growth.

Public healthcare expenditure → better quality of healthcare → higher productivity of labour → higher AS → higher potential growth

(b) In Extract 2, NHS faced the challenge of "demands are rising, as are costs. And this is all happening at a time when money is tighter than ever." [3]

Use the concept of opportunity cost to explain the effect on NHS arising from rising demand for healthcare and falling healthcare budget.

1 mark for identifying the problem of scarcity (rising dd for healthcare but falling budget)
1 mark for identifying the choice arising from the problem of scarcity
1 mark for identifying the next best alternative foregone

Give 1 mark for some attempt to define opportunity cost but did not go further than that.

Rising dd for healthcare yet falling healthcare budget, NHS need to decide how to allocate the scarce resources. (1) If it allocates more resources to treat the elderly patients, it will have fewer resources (e.g. hospital beds, funds for research) to treat other ailments for the other patients e.g. younger patients with obesity related medicated problems such as diabetes.(2)

(c) With the use of a diagram, explain the impact of an ageing population and medical advancement on the market for healthcare. [5]

1 mark for accurate diagram
1 mark for identifying the demand factor (ageing population)
1 mark for identifying the supply factor (medical advancement)
1 mark for explaining the combined effect on eqm price
1 mark for explaining the combined effect on eqm qty

Ageing population → higher dd for healthcare services → dd shifts right
Medical advancement → higher cost of production → ss shifts left
Dd shifts right, ss shifts left
→ eqm price will definitely rise by a large extent as both changes reinforce each other
→ eqm Q is uncertain → depends on the extent of shift of dd and ss.
→ if dd rise > ss fall → eqm qty rise.

(d) Discuss the benefits of introducing more competition by allowing more private hospitals to provide healthcare in the UK healthcare market. [8]

Benefits
→ More Competition → increase SS → drives down price
→ more incentive to innovate → better quality of healthcare
→ Private hospitals → less bureaucratic than govt hospitals → can respond better and more quickly to the needs of the market → more AE
→ govt cut down spending → improved budget balance → can be spent on other areas e.g. retraining to reduce unemployment

Costs
→ Private hospitals → profit motivated → with high BTE and mkt power → set P > MC → allocative inefficiency
→ Private hospitals → provide based on ability to pay → cater to the rich and not to the poor → inequitable distribution of resources to the rich and not to the poor
→ Imperfect information in healthcare sector → doctors in private hospitals may exploit consumers by recommending expensive treatments than necessarily → fall in cs

Conclusion → Some competition through allowing more private hospital is good to provide more competition to the public hospitals and reduce govt burden. But the private hospitals have to be regulated to reduce abuse of market power.

(e) The UK government provides healthcare free of charge while Singapore subsidises healthcare and encourages co-payment for healthcare expenditure through regulations such as Medisave. [10]

Discuss which approach is better in achieving greater efficiency and equity in the healthcare market.

Briefly explain the types of market failure in the healthcare market
  i. +ve externalities which will cause MSB > MPB thus leading to under-consumption of healthcare and allocative inefficiency
  ii. Market distributes goods and services based on ability to pay rather than need. Thus, the low income may not be able to enjoy the costly healthcare while the high income may get to enjoy more of the costly healthcare services which is an inequitable outcome

Explain and evaluate how the different approach by UK and Singapore help to achieve greater efficiency and equity
UK provides healthcare free of charge:
→ Qd of healthcare rises → solve the under-C of healthcare → greater efficiency

→ The poor will now be able to enjoy the costly healthcare → greater equity

Benefits: promote equity, avoid problem of deciding how much to subsidise for different types of healthcare services

Problems: High cost and this will rise further given the ageing population → affects the health of the UK government's budget → increased burden on UK's tax-payers

The UK government will have less to spend on other areas, e.g. to fight recession and thus the opportunity cost incurred may outweigh the benefits of free healthcare.

Singapore subsidises healthcare and encourages co-payment through regulation such as Medisave:
→ subsidies to hospitals = marginal external benefit → shift SS to the right → P fall → increase Qd for healthcare → more efficient allocation

With cheaper healthcare → poor can better afford healthcare → more equity

→ co-payment through regulation → ensure the consumers have sufficient savings for their healthcare → increase dd for healthcare → more efficient allocation

Benefits: Not as costly as free healthcare in UK, thus less burden on the government. Co-payment will ensure that the consumers do not over-consume healthcare services since it will affect their own savings.

Costs: The poor may still not be able to afford if subsidy is not enough and they do not have sufficient Medisave. Imperfect knowledge will mean that government does not know how much to subsidise → may not be able to achieve an efficient allocation of resources although it is likely that even with insufficient subsidy, the eqm Q will move nearer to the socially optimal output leading to a more efficient allocation.

Evaluation
Judging by the higher life expectancy of Singapore than UK (Table 2), Singapore is able to achieve a more efficient and equitable outcome than UK with less burden on the government.

The problem of lower affordability of healthcare in Singapore can be overcome through the use of Medifund where the poor may be given additional assistance to pay for the costly healthcare. Thus, the problem of inequity can be reduced for Singapore.

Hence, overall, the Singapore's approach can be a more sustainable and better approach to achieving efficient and equitable outcomes in the healthcare market.