

ECO 425: HEALTH ECONOMICS

(Main Exam)

Duration: 3 Hours

Instructions: Answer Question One and Three Other Questions

QUESTION ONE (25 Marks)

- a) Give your understand of the following;
- i). Health economics (2 marks)
 - ii) Social cost (2 marks)
 - iii) Free-rider (2 marks)
 - iv) Moral hazard (2 marks)
 - v) Risk aversion (2 marks)
- b) Discuss the economic implications of rising cost^{of health care} in a economy. (7 marks)
- c) Consider the following mutually exclusive health care interventions A,B and C.

Intervention	Cost In	Gain in	ICER in Ksh 000	
	Ksh 000	Life years	With B	without B
A	400	40	20	20
B	500	50	30	-
C	600	60	10	25

Calculate the incremental cost-effective ratios and identify the most effective intervention. (8marks)

QUESTION TWO (15 Marks)

- a) Explain how health care insurance results in an over allocation of resources in the health care industry. (7 marks)
- b) Evaluate the role of government in the health care in Kenya . (8 marks)

QUESTION THREE (15 Marks)

- a) Discuss the determinants of demand for health care in Kenya. (6 marks)
- b) Distinguish between the willingness to pay and human capital approach methods. (3 marks)
- c) Suppose that in an attempt to control the rising costs in health care, the government imposes price control on visits to physician. The maximum price for a physician visit is 10% less than the equilibrium price. Assume that the price elasticity of demand for the physician visits is 0.60 and the price elasticity of supply is 1.5.

Required:

- a) By what percentage will the quantity of health care supplied decrease?
(1 mark)
- b) By what percentage will the quantity of health care demand increase?
(1 mark)
- c) Illustrate your answer with a graph.
(2 marks)
- d) What sort of inefficiencies will occur as a result of the maximum price?
(2 marks)

QUESTION FOUR (15 Marks)

- a) Describe the four economic agents involved in health policy and regulation in political economy of health care.
(8 marks)
- b) Discuss the governments' interventions to correct market failures in the competitive health care sector.
(7 marks)

QUESTION FIVE (15 Marks)

- a) Explain briefly how a price discriminating monopolist set prices.
(7 marks)
- b) With the help of illustration, explain the relationship between physician density and utilization of health/medical services.
(8 marks)