

Market equilibrium in general medical practice when demand functions are derived from choice axioms

GeGe and Geir Godager

In this paper we describe equilibrium quality in the market for general practitioners services under the assumption of a logistic the demand structure. We provide implications for equilibrium quality in a market for general practitioners. The quality-responsiveness of the demand-side can be captured by a scale parameter, often referred to as a rationality parameter. We study games where the rationality parameter is varied, and show that even in the case of relatively small quality-responsiveness, physicians' equilibrium strategies are positively related to the rationality parameter of the demand-side, and the minimal quality that can be implemented as a (Bayesian) Nash equilibrium rises when the demand-side become more responsive to quality differences.

The reason is that changes in the demand-side quality response alters the payoff matrix of the game, resulting in a game where choosing the minimal quality strategy are dominated by at least one other pure strategy.

Our results illustrate that choice opportunities for patients cause quality incentives for providers, even in markets where the demand side has poor quality information. An important policy implication is that policies that succeed in raising the quality-responsiveness of the demand-side will lead to a rise in equilibrium qualities provided to the market. Policy examples includes lowering transaction costs and transportation costs.