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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 425**

**COURSE TITLE: HEALTH ECONOMICS**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 06/04/2021 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of TWO (2) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Consider the following passage from an article in The Wall Street Journal (October 3, 2014) and answer the following questions.

Diabetic Toby Warbet quit her secretarial job last year because of physical problems, including blurred vision and a general loss of sensation. Such was her desperation that when she heard about an unproven treatment, that might help her, she decided to borrow $20,000from relatives to pay for it. "Even if the chances are one in a million, I was hoping I would be the one, " says the Livingston, NJ resident.

1. Use the human capital approach to provide a monetary estimate of the value of Toby Warbet's life as of October 3, 2014. Explain. **(6Marks)**
2. Use the willingness-to-pay approach to estimate the value of Toby Warbet's life. Explain  **(5Marks**)
3. Provide a reason for the discrepancy between the two approaches. **(4Marks)**
4. Explain how a change in each of the following factors would alter the shape of the total product curve for medical care
5. An increase in education **[5 Marks]**
6. An improvement in lifestyle. **[5Marks]**
7. An improvement in the environment. **[5Marks]**

**QUESTION TWO**

1. Identify the three legs of the medical stool. Explain how trade off might take place among the three legs. If you had to choose one of the three to improve upon at the neglect of the others which would you choose and why? **[10Marks]**
2. Using utility analysis, explain why people demand health. Clearly discuss the law of diminishing marginal utility **(10marks)**

**QUESTION THREE**

Upon graduating, you accept a well-deserved job with ABC consulting. Your first job involves a consulting gig with a state subcommittee on health care issues. The senate health care subcommittee is considering the expansion of two existing public programs. One program concerns additional funding for the nursing homes around the state. The other program involves additional funding for community health centres around the state. In both cases funding is supposed to be used to attract more nurses for expansion purposes. Your job involves the following;

1. Draw and use a PPC to graphically show and verbally explain to the subcommittee members the opportunity cost at a point in time of expanding any one of the programs, assuming that both of them are operating efficiently. **[10 Marks]**
2. Use the PPC to graphically show and verbally explain how one or both programs could be expanded at a lower opportunity cost if some inefficiency initially exists in the overall public health system. **[10 Marks]**

**QUESTION FOUR**

1. Explain the basic structure of the Grossman model. **(12marks)**
2. Explain the education -health causality debate in the context of Grossman model **(8marks)**

**QUESTION FIVE**

1. A classmate turns to you and says, "I am rather confused. According to economic theory, people demand a good or service because it yields utility. This obviously does not apply to medical services. Just last week I went to the dentist and had a root canal, and you can't tell me I received any utility or satisfaction from that!" Explain to your classmate how utility analysis can be used to explain why we went to the dentist. **[12Marks]**
2. Explain the economic determinates of health for an individual [8marks]