RVHS H1 Case Q1 Suggested answer

<table>
<tr><td>**(a)**</td><td>**(i)**</td><td>**Describe how Singapore government healthcare spending has changed from 2006 to 2015.**</td><td>**[2]**</td></tr>
<tr><td></td><td colspan="2">It generally increases [1] at an increasing rate [1].</td><td></td></tr>
<tr><td></td><td>**(ii)**</td><td>**Explain the change in opportunity cost given this change in healthcare spending.**</td><td>**[2]**</td></tr>
<tr><td></td><td colspan="2">The opportunity cost increased [1] since increased number of projects in other sectors might have to be forgone or scale down given more funds have to be diverted. [1]

(students can also provide specific e.g of projects in other sectors. E.g. transportation projects such as increasing the number of buses on the roads and education projects such as upgrading the existing education facilities.</td><td></td></tr>
<tr><td>**(b)**</td><td colspan="2">**Extract 1 states that the number of elderly Singapore will rise to 610,000 by 2020.**

(i) Using supply and demand analysis, explain how this estimation serves to impact the market for private healthcare services.</td><td>**[6]**</td></tr>
<tr><td></td><td colspan="2">With ref to the diagram below, demand for healthcare increased [1] from D_0 to D_1 as the population continues to aged with more suffering from chronic age-related ailments [1].

On the other hand, this estimation will cause supply for healthcare to increase [1] from S_0 to S_1 as existing private healthcare providers expand and new players enter the market in view of the higher expected demand. [1].

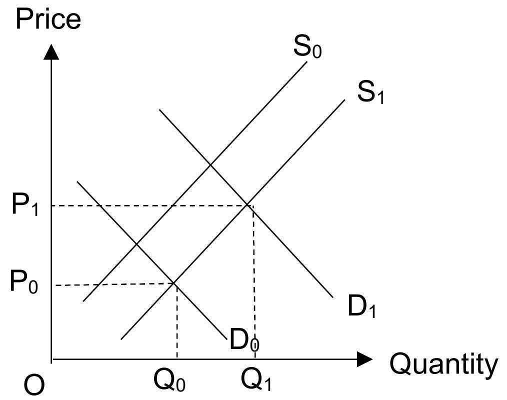

Figure 1: Market for private healthcare

1 mark will be awarded for the accurate drawing of the diagram.</td><td></td></tr>
</table>

	Given the increase in demand and increase in supply for healthcare, equilibrium quantity of healthcare will increase from Q_0 to Q_1 [0.5] while equilibrium price of healthcare is uncertain [0.5] depending on the relative magnitude of shift of demand and supply. OR While equilibrium price of healthcare is likely to increase from P_0 to P_1, the increase in demand is likely to outweigh the increase in supply since the "number of elderly Singaporeans is growing faster than ever" and/or that competition for land intensified in a small country like Singapore. [0.5]	
	(ii) Comment on how the above analysis might affect Singapore government healthcare spending going forward.	**[2]**
	Analysis based on an increase or a decrease in price is acceptable, and any 1 of the below comments is worth 2 marks. *<u>(analysis based on a decrease in price)</u>* The fall in price in private healthcare helps keep private healthcare affordable. (1) As such, there is no need for government to increase its spending further to ensure equity. (1) *<u>(analysis based on an increase in price)</u>* Possible comments Candidates may give the following combination to get a max of 2 marks. Pt 1+2 Pt 3+4 Pt 1+3 - In view of equity issue for healthcare which is a necessity, the Singapore government will need to do more e.g. provision of more grants and subsidies to keep healthcare affordable. (1) -However, given that the Singapore government has been promoting self-responsibility in the aspect of personal healthcare through compulsory healthcare savings (i.e. MediSave), the increase in government healthcare spending may not increase substantially.(1) - The increase in price of private healthcare will also cause consumers to switch over to public healthcare, increasing the demand for public healthcare. As such, the government will have to spend more to increase public healthcare facilities to cater to this rising demand. (1) -The extent will depend on the degree of substitutability of private with public healthcare. If the public hospitals are able to offer similar medical treatments with reasonable waiting time, more patients will switch over to public hospitals given the increase in price for private healthcare. As such, the government would see a larger increase in their healthcare expenditure. (1)	

(c)	**(i)**	**Explain how the expenditure of foreign patients seeking different types of treatment in Singapore might change given the strengthening of the Singapore dollar.**	**[4]**
		Given the strengthening of the Singapore dollar, the price of medical treatment in foreign currency increased. As such, there would be a change in the expenditure of these foreign patients seeking different types of treatment in Singapore. The change would depend on the elasticity of demand for the different types of medical treatment. The demand for complex medical treatment is more price inelastic due to a lack of close substitutes for complex treatment in the region. [1] When the price of such treatment increases, the quantity demanded would fall less than proportionately and hence total expenditure of patients seeking these kinds of treatment increases [1]. However, the demand for simple medical treatment, such as the hip replacement surgery, is more price elastic as there are close substitutes available in Malaysia and Thailand etc. [1] When the price of such treatment increases, the quantity demanded would fall more than proportionately and hence total expenditure of this group of patients decreases [1].	
	(ii)	**Given that "medical tourists are looking elsewhere for treatment", explain one strategy private hospitals in Singapore can employ to attract them back to Singapore.**	**[2]**
		Private hospitals in Singapore can employ both pricing and non-pricing strategies to attract medical tourists back to Singapore. ***Ans*** Based on part ci), the demand for simple medical treatment is price elastic. Hence, in order to attract tourists to seek treatment back in Singapore, private hospitals should decrease the price of such treatment [1]. This would lead to a more than proportionate increase in the quantity demanded for the treatment. [1]. **Alternative Ans** Private hospitals can also employ product differentiation, specifically product promotion or product development. Point 1+3= 2marks Or Point 2+3= 2marks 1) Product development is to create real differences such as those employed by Farrer Park Hospital mentioned in the extract, where services, like meals ordering for patients, are enhanced by the adoption of technology. [1] OR 2) Product promotion can include publicity about the quality of medical treatment here [1]. 3) These strategies aim to change the taste and preferences of medical tourists in favour of Singapore This reduces the substitutability of the medical treatment in Singapore and make the demand less price elastic [0.5].	

		With the demand for the simple medical treatment becoming more price inelastic, it would deter the quantity demanded to fall that significantly [0.5].	
(d)	**Explain whether the government should provide full subsidy for health screening.**		**[4]**
	The government should provide full subsidy for health screening if there is complete market failure. However, a complete government intervention in the form of a full subsidy is not necessary because healthcare screening is a private good as it displays characteristics of rivalry and excludability. It is rival in consumption as one additional person seeking healthcare screening will deprive another patient from health screening at the same time, given the finite amount of resources and time a doctor has. (1) As such, the marginal cost (MC) is not equal to zero. For socially optimal level of consumption, price must be equal to MC. Given that MC is not equal to zero, it is possible for the market to produce at the socially optimal level since price is greater than 0. (1) Health screening is also excludable as patients who are unwilling to pay for the service will not be granted access to the doctors and given the medical reports, (1) so there will not be free-ridership problem, hence consumers will be willing to pay a fee for this medical service and the market has the incentive to provide the good.(1) Given the implications of the two characteristics, there is no complete market failure. Hence, there is no need for government to provide it for free. *Alternative answers* *students can also start off with explaining that the market for healthcare fails because of the presence of positive externalities and as such subsidy is required.* In cases where Qs occurs at the point where MSB intersect MSC at P=0, full subsidies should be given.		

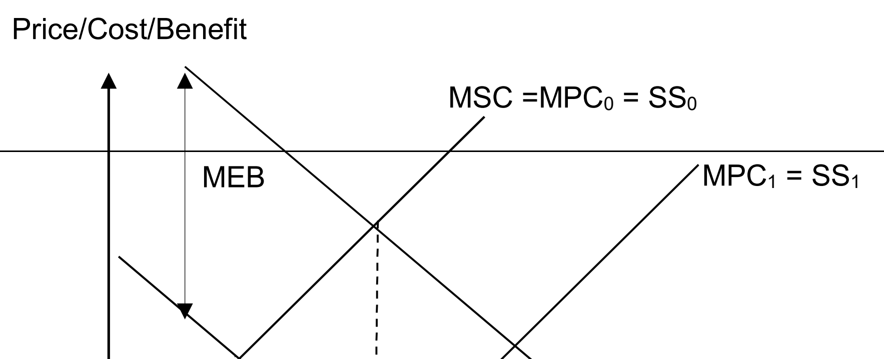

	Figure 2: Providing healthcare for free	
(e)	There tends to be under-consumption in the healthcare market. Discuss whether the medical saving account scheme described in Extract 3 is sufficient to tackle this under-consumption.	**[8]**
	What it is? How it helps? (2) The medical saving account scheme described in Extract 3 refers to the Medisave scheme. It is a legislation which requires Singaporeans earning an income to contribute to their own Medisave accounts so as to enable them to make provisions for their personal or dependents' hospitalisation expenses. The financing framework is put in place as individuals usually underestimate the amount of money put aside for medical expenses due to imperfect knowledge. With this framework in place, Singaporeans will be able to afford medical treatments where necessary and as such, it raises the demand and hence the consumption for healthcare services.	

Limitations

Although this scheme improves the ability to finance one's costs, it requires the citizens to be aware of the circumstances the savings can be tapped. Otherwise, this ignorance about the usage might still cause healthcare to be under consumed.

In addition, for the lower-income group, they might still have insufficient in Medisave account to pay for the treatments that they are required to go for.

There are various reasons for underconsumption and helping to enhance that ability is just one of them. For example, as presented in the extract, consumers might be staying away from health screening services as they are unclear of the true full benefits of pursuing a health screening. They do not appreciate the early detection of certain diseases and taking early action even if it is free. The perceived demand is therefore lower than what it could be, resulting in under-consumption. As such, measures like campaign and talk are needed to tackle consumers' ignorance, fear and lack of interest in health screening.

The increase in demand is insufficient to address the underconsumption due to various sources.

Synthesis

The Medisave scheme *by itself* is certainly not sufficient. Although the scheme is enhanced with Medisave to ensure most if not all have the ability to pay, the government *should also address the rising cost of providing healthcare*. This is especially so in view of the manpower cost that is expected to continue to rise as spell out in Extract 2. And *if the cost of funding Medifund increases significantly over time, the government should review the contribution rates* for Medisave as it might signal the amount needed to be put aside is simply too low for most Singaporeans.

In addition, there are other reasons for underconsumption due to imperfect information. As such, the government needs to *adopt measures that are beyond the affordability issue*.

Level	Description	Marks
L3	Developed explanation on how Medisave helps address under-consumption and two other reasons why it is insufficient in dealing with the under-consumption. (To get the max of 6 marks, candidate would have to use the health screening as given in the extract as an e.g. to substantiate the point)	5-6
L2	Undeveloped explanation on how Medisave helps address under-consumption and two other reasons why it is insufficient in dealing with the under-consumption. Developed explanation on how Medisave is insufficient in dealing with the under-consumption.	3-4
L1	Smattering of valid points	1-2

	E2	For an answer that explain possible ways the government can complement the medical saving account scheme.	2		
	E1	For an answer that state ways the government can complement the medical saving account scheme.	1		