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## The Labor Market for Physicians

### Comprehension Questions

Indicate whether the statement is true or false, and justify your answer. Be sure to cite evidence from the chapter and state any additional assumptions you may need.

1. Physicians in the United States are licensed to practice medicine immediately after they complete medical school.

**FALSE.** In the United States, at least, physicians must complete one year of residency after medical school to become eligible to apply for a license.

2. The internal rate of return is defined as the interest rate that makes the net present value of an investment stream exactly equal to zero.

**TRUE.** The IRR of an investment is the interest rate  $r^*$  that would imply a net present value of 0 for that investment versus the next best alternative.

3. Consider two investment streams  $w$  and  $z$  which pay out some amount,  $w(t)$  and  $z(t)$ , in each period  $t$ . (The amount may be negative in some periods). If the interest rate is exactly equal to the internal rate of return of  $w(t)$ , the net present value of choosing  $w$  over  $z$  is zero.

**TRUE.** This is the definition of the internal rate of return. If the interest rate equals the IRR, the two investments are equally appealing.

4. The number of U.S. medical schools decreased drastically between 1900 and 1950.

**TRUE.** This trend was a result in part of the release of the Flexner report, which argued that most U.S. medical schools were supplying substandard medical education.

5. The full economic cost of medical school includes mainly tuition, room, and board for the school.

**FALSE.** One of the principal costs of medical school is the opportunity cost of time spent in school as opposed to working.

6. Compared with doctors who are paid on a fee-for-service basis by health insurers, doctors who are paid on a capitated (per patient) basis have incentives to provide too much care.

**FALSE.** The opposite is true: doctors who are paid a fee for each service have incentive to convince their patients to demand a lot of services.

7. In part, physicians' salaries are higher than secretaries' salaries because it takes more years to train to become a physician than it does to become a secretary.

**TRUE.** The training process to become a doctor is much more expensive (in terms of both time and money), so salaries for doctors must be higher to compensate physicians for the time and money they spend on training.

8. The fact that practicing surgeons who have finished residency earn more than practicing pediatricians implies that the rate of return to choosing surgery exceeds the rate of return to choosing pediatrics for a medical school graduate.

**FALSE.** Surgeons have to spend more years in residency and typically work longer hours. These factors may be enough to justify their higher salaries. In fact, the rate of return to choosing pediatrics may be higher if becoming a pediatrician is significantly easier.

9. Once length of residency and hours of work are taken into account, the internal rate of return of choosing a specialized branch of medicine over a more generalized branch is roughly equal to the real rate of interest in the economy.

**FALSE.** The rate of return to choosing certain specialties has been measured at over 20% (Nicholson 2002).

10. If physicians are earning monopoly rents, then there must be more barriers to entry in the labor market for physicians than is socially optimal.

**FALSE.** Monopoly rents do imply that there are barriers to entry in this labor market, but they may be justified if the barriers ensure higher physician quality and patients value that assurance highly.