

- 7.8 a. What is scenario analysis as applied to pricing and service decisions?
 b. Why is it such an important part of the process?
- 7.9 a. Define a relative value unit (RVU).
 b. Explain how RVUs can be used to set prices on individual services.

Problems

- 7.1 Assume that the managers of Fort Winston Hospital are setting the price on a new outpatient service. Here are relevant data estimates:

Variable cost per visit	\$5.00
Annual direct fixed costs	\$500,000
Annual overhead allocation	\$50,000
Expected annual utilization	10,000 visits

- a. What per visit price must be set for the service to break even? To earn an annual profit of \$100,000?
- b. Repeat Part a, but assume that the variable cost per visit is \$10.
- c. Return to the data given in the problem. Again repeat Part a, but assume that direct fixed costs are \$1,000,000.
- d. Repeat Part a assuming both a \$10 variable cost and \$1,000,000 in direct fixed costs.
- 7.2 The Audiology department at Randall Clinic offers many services to the clinic's patients. The three most common, along with cost and utilization data, are:

Service	Variable Cost per Service	Annual Direct Fixed Costs	Annual Number of Visits
Basic examination	\$ 5	\$50,000	3,000
Advanced examination	7	30,000	1,500
Therapy session	10	40,000	500

- a. What is the fee schedule for these services, assuming that the goal is to cover only variable and direct fixed costs?
- b. Assume that the Audiology department is allocated \$100,000 in total overhead by the clinic, and the department director has allocated \$50,000 of this amount to the three services listed above. What is the fee schedule assuming that these overhead costs must be covered? (To answer this question, assume that the allocation of overhead costs to each service is made on the basis of number of visits.)
- c. Assume that these services must make a combined profit of \$25,000. Now what is the fee schedule? (To answer this question, assume that the profit requirement is allocated in the same way as overhead costs.)
- 7.3 Allied Laboratories is combining some of its most common tests into one-price packages. One such package will contain three tests that have the following variable costs:

Dispo
Bloo
Form
Reage
Steril
Break

When
banda
will ap
the sam

a. As a
man
b. Ass
pri
c. All
dun
ove
coe
con

7.4 Assum
group

Paycr
Penn
Medic
Comm

The

a. W
b. A

pe
ce
ch

c. W
th

p
d. A
in

c
7.5 Bay
50,
cha