Study Question

The state Medicaid agency has set a rate of $5.50 per visit for all Medicaid enrollees who visit a physician. Each physician also has private paying patients. The demand curve for each physician can be characterized as follows, and physicians can be regarded as individual monopolists.

*Out of pocket price Quantity of visits demanded*

$8 0

7 1

6 2

5 3

4 4

3 5

2 6

1 7

Each physician also has a cost schedule that can be characterized as follows:

*Quantity of visits provided Total cost*

1. *$5*
2. *7*
3. *11*
4. *17*
5. *25*
6. *35*
7. *47*

a. If each physician is a profit maximizing provider, how many visits will he/she provide to public and private patients?

b. What will the number of visits provided be if the Medicaid Agency lowers its rate to $3 per visit, but the demand remains the same?