

Merit goods

In order to fully understand the idea of merit goods, students need to have previously studied the idea of external benefits – the idea that some goods will be demanded too little in the free market because consumers demand on the basis of their private benefits rather than the full social benefit (private benefit plus external benefit). Therefore the free market will tend to under provide these types of good (hence market failure and welfare loss).

One useful scenario in which to explore some of these ideas is the NHS, which is obviously provided free at the point of use.

One approach is to **show the following short video clips**:

A&E in crisis (1 minute): <http://www.bbc.co.uk/news/health-22758373>

View of NHS from abroad (2.5 minutes): <https://www.youtube.com/watch?v=3wWrBaQjkvo>

US healthcare costs 1 (1.5 minutes – 30 second advert to play through in advance): http://www.huffingtonpost.com/2014/04/17/health-care-costs_n_5160819.html

US healthcare costs 2 (3 minutes): <https://www.youtube.com/watch?v=Ro56CoQ7GoY>

Ask the students to watch the films then discuss in small groups the relative merits of markets versus state provision in health and then feed back to the class what they think.

Possible points that might be raised:

The need to encourage health provision because of the external benefits, but there is a risk of overuse (A&E crisis in the UK). You could break out at this point and get them to use supply and demand analysis to show waiting lists in A&E – see appendix below.

It will help to reduce inequality/paying for it might worsen inequality. However, this will have to be paid for by tax – the national debt is already very high. If paid for through rising indirect taxes, this might worsen inequalities.

NHS buying power helps to drive down costs. A single buying organisation has massive negotiating power with pharmaceutical companies etc. But there are risks of inefficiency because it is not a profit-making organisation. <http://www.bbc.co.uk/news/uk-scotland-25151839>

Profit-making hospitals in the US have an incentive to win customers, meaning that patient care and quality might be higher.

The US faces a principal-agent problem, which is that because of private health insurance, it's not the doctor or the patient that pay, meaning that there is an incentive to go for the most expensive option. In addition, litigation in the US has led to an increase in numbers of unnecessary tests.

In the UK system, because there are no fees, surgeons can decide on the basis of medical need.

Appendix

Supply and demand analysis of waiting lists: S of beds is basically fixed. If you want to show the worsening crisis, you could get them to shift demand to the right showing the effects of an ageing population, together with a smaller increase in supply to show increased provision of beds over time. The same diagram can be used elsewhere to analyse road congestion.

