

Practice Quiz 2, ECON 3301, Darren Grant. This practice quiz is intended to give you a flavor of the type of questions that might appear on your test. Answers are given at bottom, so I recommend folding over and answering blind first, then looking at the answers. You will find practice questions of all three types: multiple choice from the notes, multiple choice from the book, and free response.

1. Which is not an aspect of market structure, as discussed in class?
 - a) information
 - b) institutions
 - c) incentives

2. The book discussion of pharmaceutical market regulation emphasized:
 - a) throughout the twentieth century, the U.S. kept tinkering with its system for approving pharmaceutical drugs
 - b) the FDA approval process doesn't apply to drugs produced abroad, a major limitation
 - c) regulation wasn't really needed until after World War II, when researchers began discovering new drugs rapidly

3. Small area variation refers to which market?
 - a) pharmaceuticals, which are more heavily used in some areas than others
 - b) nursing homes, which are more accessible in some areas than others, because of certificate of need
 - c) physicians, who use certain medical procedures more in some areas than others

4. Briefly describe the key features of the FDA approval process for pharmaceutical drugs: its main objectives, the simple mechanics of the process (what is done as you go through the process), and the time frame involved (months, years, decades).

5. In three markets we studied—physicians, long term care, and pharmaceuticals—government erected one barrier to entry that we discussed in class. Name the barrier to entry for each market.

Answers and Brief Explanation:

1. The answer is b. The big three are, “competition, information, and incentives.”

2. The answer is a. The other two choices are complete b.s. The book chapter went on and on about all the changes in the regulatory process during the 1900s.

3. The answer is c. The other two answers sound good!—but they are total b.s. This was discussed in class and in your book, which also contained a nice chart.

4. The FDA approval process has two objectives: make sure the drug is 1) safe and 2) effective. The process involves several clinical trials (technically, stage I, II, and III clinical trials), and you have to pass each one to process to the next. The process is typically quite long, close to five years. Including the time it takes to develop the drug, it typically takes over a decade to bring a new drug to market.

5. In the physician market, licensure was the barrier to entry. In long term care (and also, a little, in hospitals), it is certificate of need. In the pharmaceutical market, patents are a barrier to entry (not FDA approval per se, since you will get that if your product is safe and effective). Each was discussed in class and in your book in detail.