Imperfect Markets

In well-functioning markets, buyers know what they like, have many sellers to choose from, have a good understanding of what the sellers have to offer, and can choose the good or service they want most at a price they can afford. By doing so they show they prefer it to anything they could have bought with the same amount of money.

Sellers, in turn, take that money to buy and pay for the labor services and other inputs required to produce and deliver the product. The product is then produced in the most efficient, least-cost way, and the price just covers that cost.

In a well-functioning market, incentives exist for the suppliers to provide what the buyers want most at the lowest possible cost.

In contrast, imperfect markets are ones where there are only one or a few sellers with control over the market. These sellers can restrict their output and raise prices, charging prices that exceed their cost of production. In imperfect markets, there is no way to ensure that sellers produce their products in the most efficient, least-cost way. Historically, the government has from time to time stepped in to regulate the excesses of such markets or to improve their functioning.

The health-care system is a complex, interrelated system of imperfect markets, and the imperfections found within those markets go well beyond those found in traditional imperfect markets.