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Presentation Title

Public Provision of Professional Services

Abstract

Professional services are credence goods provided by certified experts (professionals). The most prominent examples of professional services are medical or legal services. Interestingly, the markets for such services are often subject to partial public provision: there is a low-end segment, where the services of basic quality are provided for free and professionals are reimbursed by the government, and the high-end segment, where free market principles prevail. We examine the efficiency of this market structure. To this end we apply and develop further the model of the market for goods with credence attributes proposed by Baron (2011). We demonstrate that partial public provision can correct for the market failure caused by the credence good nature of professional services, even in the presence of regulation costs. The efficiency gain from partial public provision is due to a combination of quality and price effects.

Keywords

Publicly provided private goods, credence goods, professions, self-regulation, costs of regulation

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