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Don't shoot the messenger: The role of prices in the veterinary market

Whether on the floor of the NYSE or in veterinary medicine, prices signal changes between and within markets.



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By [Mike Dicks, PhD](#), [Ross Knippenberg, PhD](#)

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One look at the trading floor of Wall Street's New York Stock Exchange is enough to make any well-organized professional cringe. It looks like chaos: people in brightly colored jackets cramming into a room waving their hands and shouting endless streams of numbers. It's quite a contrast from an animal hospital that sees 10 to 20 patients per doctor per day. But stockbrokers and veterinarians both use exactly the same signaling process to conduct their businesses. Price is that signal and it coordinates most economic activity.

Vertically related veterinary markets

Veterinarians operate in three vertically related markets: the market for veterinary education, the market for veterinarians, and the market for veterinary services. Each market has a unique price. The market for veterinary education uses student effort, faculty and staff time, and school facilities as inputs to produce veterinarians. Tuition, fees, and the sacrifice of four years are the price that students pay to become veterinarians.

The market for veterinarians aligns DVMs to available jobs. Veterinarians are the suppliers; labor hours are their products; and governments, private clinics, industries, academia, and nonprofit organizations are the consumers. Salary is the price these consumers pay to veterinarians.

The market for veterinary services supplies services through the use of veterinarians' time, staff time, and clinic supplies, equipment and facilities. The buyers are animal owners and the general public, and the sellers are governments, private clinics, industries, academia, and nonprofit organizations. The price in this market is equal to the cost of the veterinarian's labor, the cost of support staff, and clinic expenses.

How do prices coordinate the markets?

No seller is willing to sell its product for less than it costs to produce: veterinary colleges won't design their programs to lose money, veterinarians cannot work for less than their cost of education and living expenses, and veterinary clinics cannot charge less than what it costs to provide services. These rules can be violated, but only in the near term.

Buyers in any market will not pay more than a good or service is worth to them: veterinary students will not pay more for education than they can gain as working professionals, employers will not pay more for a veterinarian than the additional revenue he or she produces, and clients will not pay more for veterinary services than the perceived benefit received.

Prices within each market mirror the Wall Street trading floor, where the willingness to pay meets the willingness to sell. A price that is too low will force some sellers out of the market, whereas a price that is too high will force some buyers out of the market.

Messaging between markets

If all three veterinary markets use different prices, how can coordination occur? The cost of providing veterinary services is linked to the veterinary living and education costs. The demand for veterinary students depends on the demand for veterinarians and that, in turn, depends on the demand for veterinary services. If the cost of education increases, consumers will become aware of this because the price of veterinary services increases. As the demand for veterinary services declines, veterinary students become aware of this through the declining price for veterinarians. Each change in willingness to sell or willingness to pay in any market will be transmitted via a change in price to all other markets. Thus, each market will adjust as the price change information in one market is communicated to the other markets.

Consider an increase in the cost of living as an example of how prices coordinate across the markets. The immediate effect of a cost of living increase for everyone in the United States is that veterinarians will increase the price for which they are willing to sell their services. As a result clinics will raise the price at which they are willing to sell veterinary services. The increased price for veterinary services will reduce the quantity of services demanded and this in turn reduces the demand for veterinarians and thus veterinary education.

Or what if new technologies are required in the classroom so that educating future veterinarians becomes more expensive? The price at which a college is willing to sell seats would rise, graduating veterinarians would require higher starting salaries and, because veterinarians are paid higher salaries, providing veterinary services is now more expensive so the price must rise and the quantity demanded falls.

They may seem worlds apart, but both stockbrokers and veterinarians rely on price signaling to conduct business. Getty Images



Price is the market's messenger. Not only does price convey messages between buyers and sellers within a market, but price also conveys messages between markets. All of the information about conditions within a market as well as between markets is conveyed through prices. This is true whether the subject is the New York Stock Exchange, your animal hospital or a college of veterinary medicine. As such, price is the ideal messenger to transfer information between all market participants.

Dr. Ross Knippenberg is an economic analyst for the American Veterinary Medical Association's Veterinary Economics Division. Dr. Mike Dicks is director of the Veterinary Economics Division.

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