

## Abstract

This paper develops a model of supplier-induced demand as strategic framing where the patient has reference-dependent preferences, and the physician can persuade the patient to buy a treatment by affecting the patient's reference point. In the main result, the patient is assumed to have a constant rate of risk aversion (loss aversion) in the gain (loss) region. Two scenarios are treated. In the cure scenario, the physician wants to frame the patient's decision problem such that he prefers to buy a risky curative treatment rather than no treatment. It is shown that the physician is most persuasive if she sets a high reference point, such that the patient sees all payoffs as losses down from that reference point. In the prevention scenario, the physician wants to frame the patient's decision problem such that he prefers a safe preventive treatment rather than no treatment. In this case, the physician's optimal framing either involves framing all payoffs as gains, thus making the patient risk averse. Alternatively, loss aversion is exploited by framing only the fact of getting ill (rather than having prevented illness) as a loss.