

HPAM8600: Health Economics

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Spring 2009

Greetings

1. Name?
2. What program or year?
3. Why are you taking this course?

What is Health Economics?

- ▶ What is Economics?
 - ▶ Origin of economy: Greek for 'one who manages a household'
 - ▶ Defn of economics: the study of how society manages its scarce resources
- ▶ What is Microeconomics?
 - ▶ The study of individual households and firms and how they interact in markets
 - ▶ Macro: the study of economy-wide phenomena

What is Health Economics?

Studying the health economy using certain characteristic approaches used by economists:

- ▶ Models – like a map, simplifying assumptions
- ▶ Concepts:
 - ▶ Choices involve trade-offs
 - ▶ What did you give up to go to school?
 - ▶ Rent/food vs. medicine
 - ▶ Biggest in economics: efficiency vs. equity
 - ▶ Choices involve opportunity costs: total cost =
 - ▶ what you pay (doctor bill)
 - ▶ what you give up (lost wages)

What is Health Economics? Concepts, *continued*

- ▶ Rational people make decisions at the margin
 - ▶ Proceed only if marginal benefit $>$ marginal cost
 - ▶ One more year of school if benefit of another year exceeds costs of another year
 - ▶ One more doctor visit if benefit of additional visit exceeds costs of additional visit
- ▶ Decisions are made in response to incentives
 - ▶ Old welfare system encouraged single mothers
 - ▶ seat belt laws encourage unsafe driving
 - ▶ Medicaid encourages uninsurance
- ▶ Trade can make everyone better off - comparative advantage
 - ▶ Nurse can prescribe drugs in simple cases so doctor can work on more complicated cases
 - ▶ Doctor is more knowledgeable about both, but sharing allows more health care to be administered

What is Health Economics? Concepts, *continued*

- ▶ Markets (vs. central planner) are usually most efficient
 - ▶ Invisible hand
 - ▶ Central planner over milk, half class lactose intolerant
 - ▶ CP doesn't know so everyone gets 1 pint a day
 - ▶ if CP allows trade, everyone is better off
- ▶ There are situations when govts can help - market failures
 - ▶ Externalities - one's actions affect someone else
 - ▶ negative (factory pollutes lake) – firm should pay
 - ▶ positive (research, health of poor) – govt pays
 - ▶ Market power (monopoly)
 - ▶ Microsoft getting too big, stifling competition, prices high

Course Topics

- ▶ Demand for health and health care
- ▶ Supply of health care
- ▶ Health insurance
- ▶ Government intervention
- ▶ Racial disparities in health
- ▶ Health system reform
- ▶ Economic evaluation
- ▶ Economic epidemiology

Demand for health and health care

- ▶ The production of health (lifestyle, environment, income, health care)
- ▶ Grossman's model of health production – why richer, more highly educated people are healthier

Supply of health care

- ▶ hospitals – competition, costs, regulation
- ▶ long term care – excess demand, financing, quality of care
- ▶ non-profits – why do they exist? how are non-profit hospital different from for-profit hospitals?
- ▶ labor (doctors, nurses, etc)
 - ▶ how are wages determined?
 - ▶ shortages
 - ▶ physician pricing and price discrimination
 - ▶ supplier-induced demand
- ▶ pharmaceutical industry
 - ▶ drug pricing (R&D, patents, price discrimination, generics)
 - ▶ cost containment

Health insurance

- ▶ supply and demand
- ▶ moral hazard – demand more care because not paying full cost
- ▶ adverse selection – greater propensity of unhealthy people to buy insurance, or more generous insurance
- ▶ employment – what are the consequences of having insurance tied to employment?
- ▶ uninsured – 48 million people, half work; what would mandated benefits do?
- ▶ managed care – combine insurance and provision of care; creates incentive to avoid unnecessary care

Government intervention

- ▶ Why is it justified in the case of market failure?
- ▶ Types of interventions
 - ▶ transfer programs; e.g. Medicare, Medicaid, do they crowd out private insurance?
 - ▶ regulation; e.g. FDA, mandated benefits
 - ▶ public health initiatives; e.g. smoking, pollution, sanitation
 - ▶ taxes and subsidies; e.g. tax-exempt employer contributions

- ▶ Racial disparities in health – what does the research say?
- ▶ Health system reform – what are some options? what are the benefits and drawbacks of each?
- ▶ Economic evaluation – value of statistical life, costs-benefit and cost-effectiveness analysis
- ▶ Economic epidemiology – combining economic theories with epidemiologic theories, HIV/AIDS case study

What will I learn in this class?

Course Learning Objectives

- ▶ Explain the basic features of a market, including supply and demand, for health care and insurance.
- ▶ Identify various and sometimes competing theories of the non-medical determinants of health.
- ▶ Explain the role of government in improving health and providing access to health care.
- ▶ Discuss factors behind the rising costs of health care and approaches to health reform.
- ▶ Evaluate the intended and unintended effects of policies from an economic perspective.
- ▶ Demonstrate effective written and oral skills for communicating economic arguments to a lay audience.

Materials

- ▶ *The Economics of Health and Health Care*, 5th ed., by Folland, Goodman and Stano
- ▶ handouts from news, journals, etc
- ▶ colored pens
- ▶ calculator (for homeworks and exams)

Grading

- ▶ 2 midterms (20% each)
- ▶ final exam (20%)
- ▶ 2 short papers (10% each)
- ▶ 9 homeworks (10%)
 - ▶ handed out Wed; due following Wed beginning of class
 - ▶ no late hwks accepted; lowest grade dropped
- ▶ class participation (10%) – class attendance; informed participation

Exams

- ▶ Calculations
- ▶ Graphs
- ▶ Short answers
- ▶ Some multiple choice

Papers

- ▶ Two one-page papers where you ask a question about the health economy that puzzles you and answer the question using economic tools.
- ▶ **Instructions and Examples**
- ▶ First one due in class on February 25.
- ▶ Re-write the paper for the final grade.

Consultation

Office and Hours: Coverdell N120, MW 11am-noon, or by appt

Website

<http://afertig.myweb.uga.edu/healthecon.html>