1: Introduction to health economics
Folland et al Chapter 1

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Economics 317

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What is health economics?

- Best answered by a breakdown of what (U.S.) health economists do.
  - 50% study the behavior of individuals
  - 34% study the behavior of firms
  - 50% study government policy
  - 48% study health insurance
  - 50% study outcomes research
  - 31% study other issues

- Similar in Canada and elsewhere, with less emphasis on firms.
Who cares?

- Health economists study issues fundamental to human welfare:
- how do we make decisions which affect our length and quality of life?
- what government policies could we use to change behavior which affects health?
- how could we better provide health care?
- what other government policies affect health?
Health Care Expenditures as a Fraction of GDP: Selected Countries

Source: Cheng and Kenkel, 2010
Lecture 1: Introduction to health economics

What is health economics?

Health behavior.

Economic analysis.
Health behavior

A Tale of Two Cities: Excess mortality in Nevada vs Utah, 1959–68

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
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<tr>
<td>&lt; 1</td>
<td>42%</td>
<td>35</td>
</tr>
<tr>
<td>1-19</td>
<td>16</td>
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<td>40-49</td>
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<td>69</td>
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<td>50-59</td>
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<tr>
<td>60-69</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>70-79</td>
<td>20</td>
<td>6</td>
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</tbody>
</table>

Source: Fuchs, 1974
What is health economics?

Health behavior.

Economic analysis.

Over which the real price of cigarettes more than doubled (see Figure 2), and various other tobacco control policies were enacted. While the longer time period we study does not provide definitive results about the role of cigarette taxes or prices, our results show that it is important to recognize that the influences of key demographic factors on cigarette demand change over time. From 1944 to 2004: the gender difference in smoking rates almost disappears; the Black-white difference reverses; and a strong gradient with schooling emerges. As discussed in special Surgeon General’s Reports, other social and behavioral sciences explore gender and racial differences in smoking (USDHHS 1998, 2001). The various and varying demographic influences on cigarette demand are potentially fruitful areas for future health economic research as well. In particular, better understanding the schooling-smoking gradient, and the perhaps related negative income elasticity of cigarette demand, remain key challenges.

11 See for example, Levy and Meara (2006) and Tauras (2006). Data limitations prevent us from estimating the effects of the specific tobacco control policies that constitute the anti-smoking campaign. Specific events include the 1964 Surgeon General’s Report, the 1971 ban on television cigarette advertising, and the 1998 Master Settlement Agreement with the tobacco industry. The influences of these events are picked up by the year indicators in our models, so we cannot distinguish their effects from other changes over time.

Source: Cheng and Kenkel, 2010
Health behavior

► Why has the distribution of body weight changed over time?
► Why do people smoke even when everyone knows smoking harms health?
► Would raising alcohol taxes reduce accidents? STDs?
► What about raising the minimum drinking age?
► What is the government’s role in these decisions?
Characteristics of economic analysis.

1. Emphasize scarcity. Really: emphasize **tradeoffs**.
2. Usually assume rationality (jargon!) in models.
3. Think at the margin.
4. Use of models to understand complex systems.
5. Heavy use of statistical methods.
Example: RAND Health Insurance Experiment.

- What is the effect of price of care on quantity of care consumed?
- Price depends on insurance.
- Cannot just look at the correlation between insurance purchases and quantity.
- Experiment: randomize proportion of price paid by patient ("coinsurance rate")
Lecture 1: Introduction to health economics

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Does Price Matter?
The curves shown are similar to an economist's demand curve in that they show people consuming more care as the care becomes less costly to the consumer in terms of dollars paid out-of-pocket. More importantly, the curve demonstrates that economic incentives do matter. Those facing higher prices demand less care.
Why is health different?

- Uncertainty.
- Prominence of insurance.
- Information.
- Non-profit firms, government price setting.
- Restrictions on competition and other regulations.
References.
