

What is health
economics?

Health behavior.

Economic analysis.

1: Introduction to health economics

Folland *et al* Chapter 1

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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?

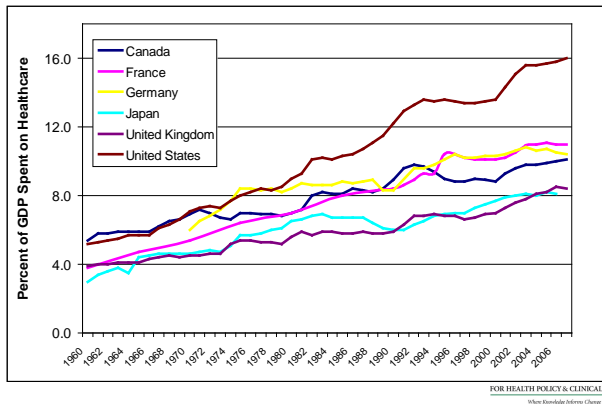
- ▶ Health economists study issues fundamental to human welfare:
- ▶ how do we make decisions which affect our length and quality of life?
- ▶ what government policies could we use to change behavior which affects health?
- ▶ how could we better provide health care?
- ▶ what other government policies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

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Health Care Expenditures as a Fraction of GDP: Selected Countries



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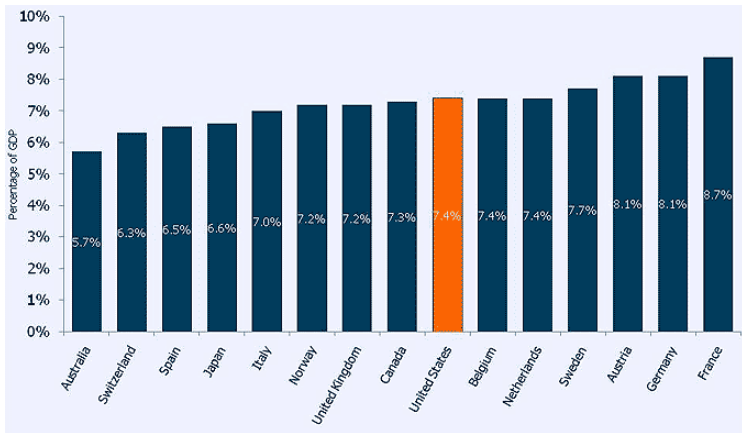
Source:

Cheng and Kenkel, 2010

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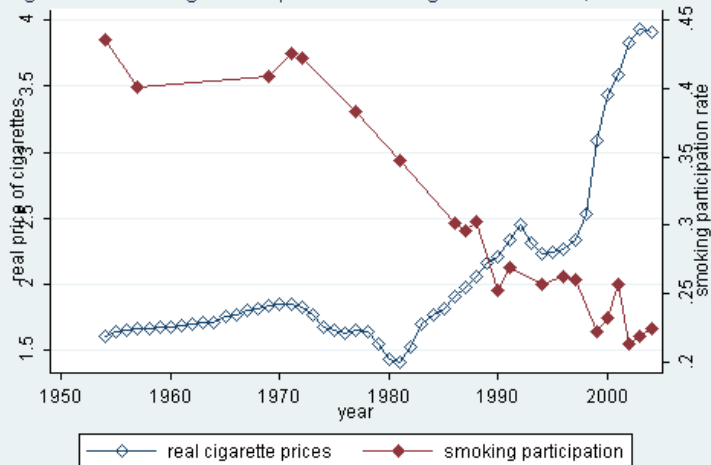


A Tale of Two Cities: Excess mortality in Nevada vs Utah,

1959-68		
Age	male	female
< 1	42%	35
1-19	16	26
20-39	44	42
30-39	37	42
40-49	54	69
50-59	38	28
60-69	26	17
70-79	20	6

Source: Fuchs, 1974

Figure 2: Smoking Participation and Cigarette Prices, 1954-2004



Source: Cheng and Kenkel, 2010

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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.

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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.

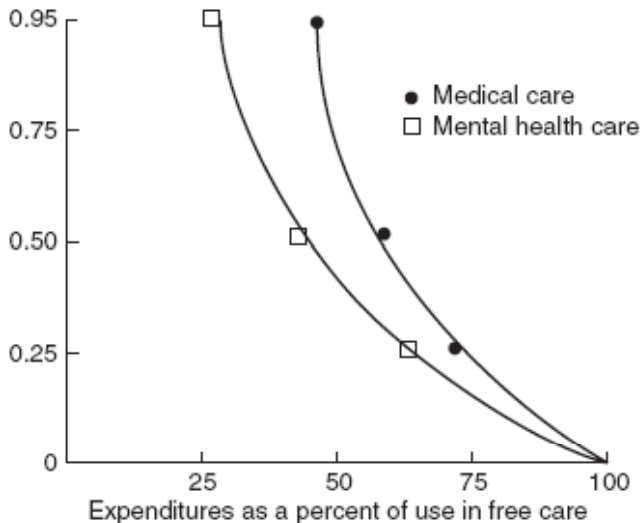
- ▶ What is the effect of price of care on quantity of care consumed?
- ▶ Price depends on insurance.
- ▶ Cannot just look at the correlation between insurance purchases and quantity.
- ▶ Experiment: randomize proportion of price paid by patient (“coinsurance rate”)

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Coinsurance rate



Why is health different?

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

References.

- ▶ Cheng, K. and D. Kenkel (2010) "U.S. cigarette demand: 1944–2004," *B.E. Journal of Economic Analysis and Policy* Vol 10, Issue 1.
- ▶ Fuchs, V. (1974) *Who Shall Live? Health, Economics, and Social Choice*. New York: Basic Books.