

1: Introduction to health economics

Folland *et al* Chapter 1

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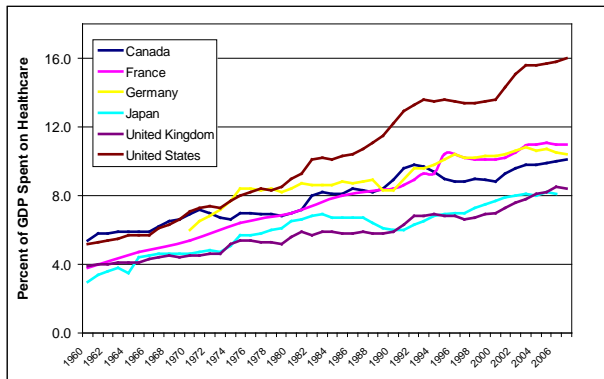
What is health economics?

- ▶ 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?

Health Care Expenditures as a Fraction of GDP: Selected Countries

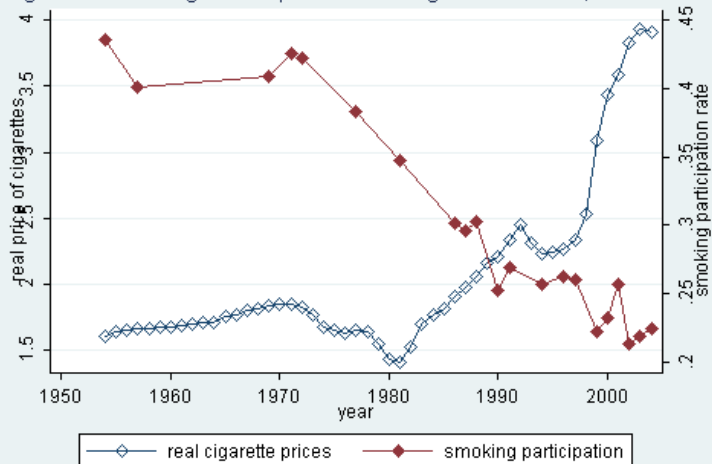


A Tale of Two Cities: Excess mortality in Nevada vs Utah,

	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

What is health
economics?

Health behavior.

Economic analysis.

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?

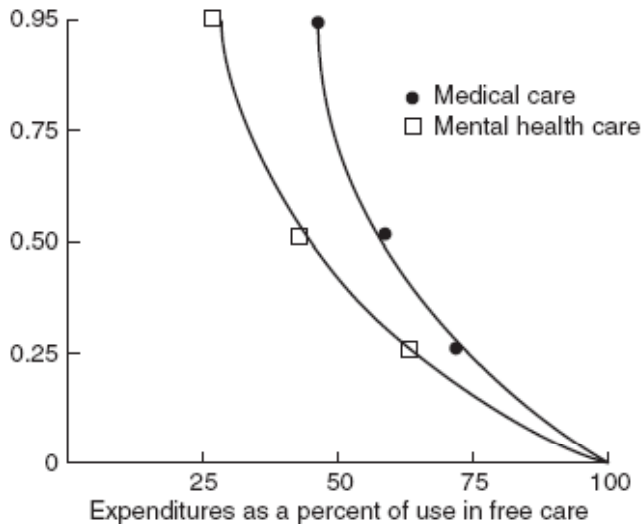
Characteristics of economic analysis.

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”)

Coinsurance rate



What is health economics?

Health behavior.

Economic analysis.

Why is health different?

What is health
economics?

Health behavior.

Economic analysis.

- ▶ 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.