Health economics

Bryn Mawr College

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1

Let's start with Intro to Econ Review

“ what is your definition of “Economics”?

It is the study of ....

What did we learn in Microeconomics?

Consumer theory

Demand

Opportunity cost

Marginal Utility

Consumer surplus

Elasticity

Max _____

Producer Theory

Supply

Marginal Cost

Cost curves

Market structure (Monopoly, Oligopoly, Perfect competition)

Max _____

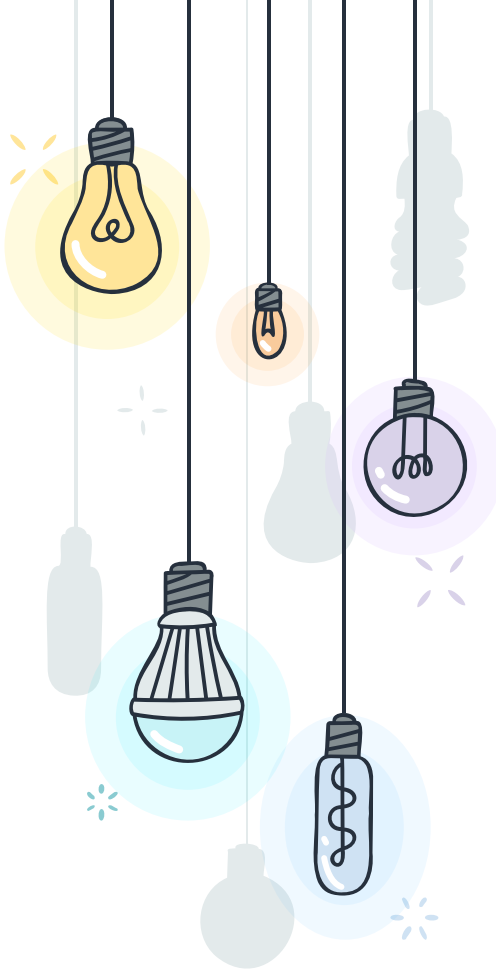
Government

Tax

Price Controls

Subsidy

Anti-Trust



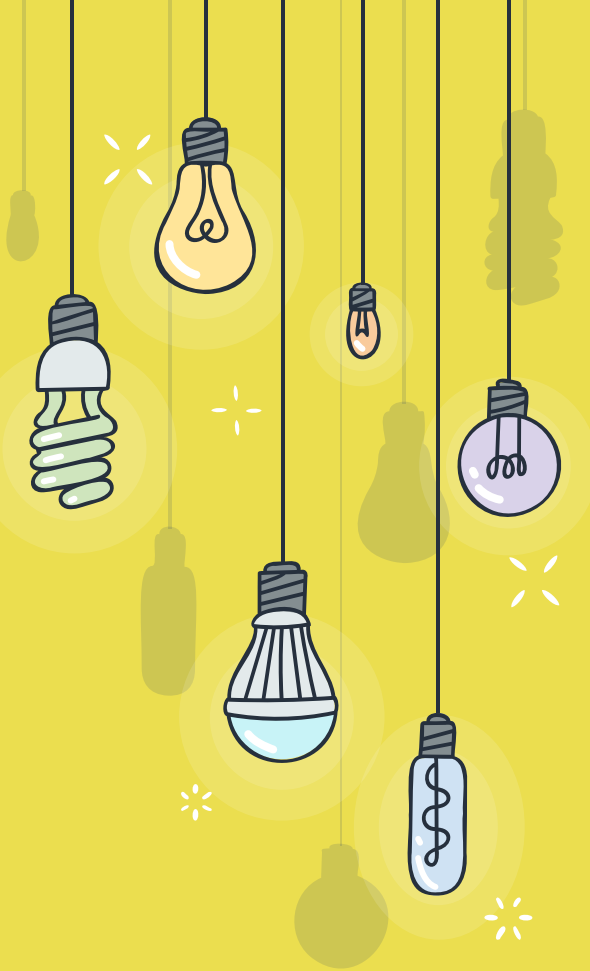
Same concepts, orders, progression in health economics

2

What is health economics?

> A branch of economics that deals with the supply and demand of **health care** and **health**.

- Health care?
- Health?



What did we learn in Microeconomics?

Consumer theory

We do not buy ____,
We do buy ____

Producer Theory

We buy things from providers

Government

Most of our interactions in any market are regulated by the government

Insurance

Intermediaries between consumers and producers

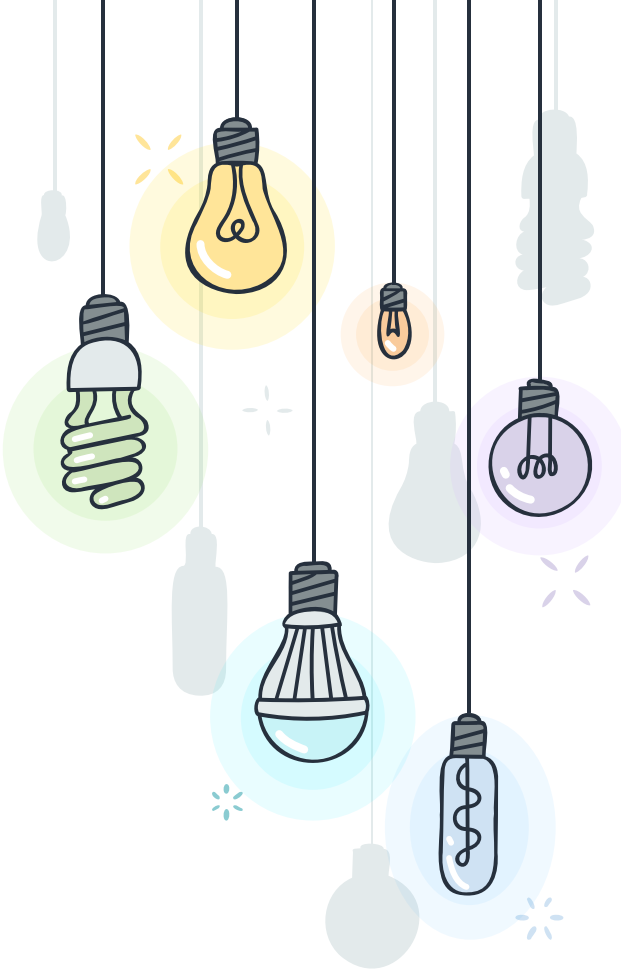
Consumer theory

- We consume goods to get utility from
  - Pizza, jeans, cars, Netflix
- Why do we buy health care goods, such as visit to a doctor, blood test, medication, covid-vaccine, flu shot?
- What else would influence the level of health, other than consumption of health care goods?
- We will derive **demand curves for health care**

Producer theory

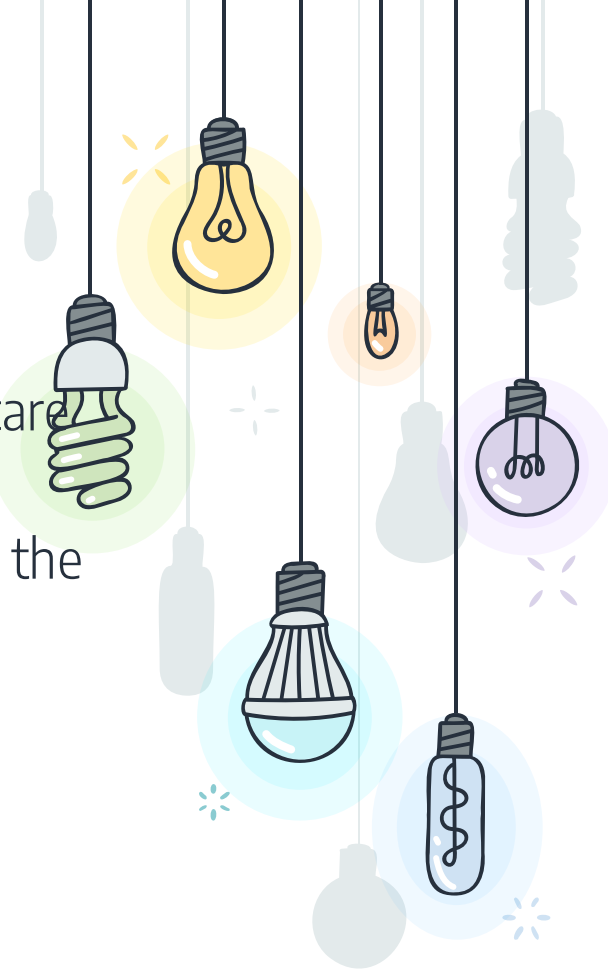
- Who are the producers in the health care markets?
  - Physicians, hospitals, nursing homes
  - Pharmaceutical companies

- Maximize profits subject to cost constraints
- We will derive supply curves of health care



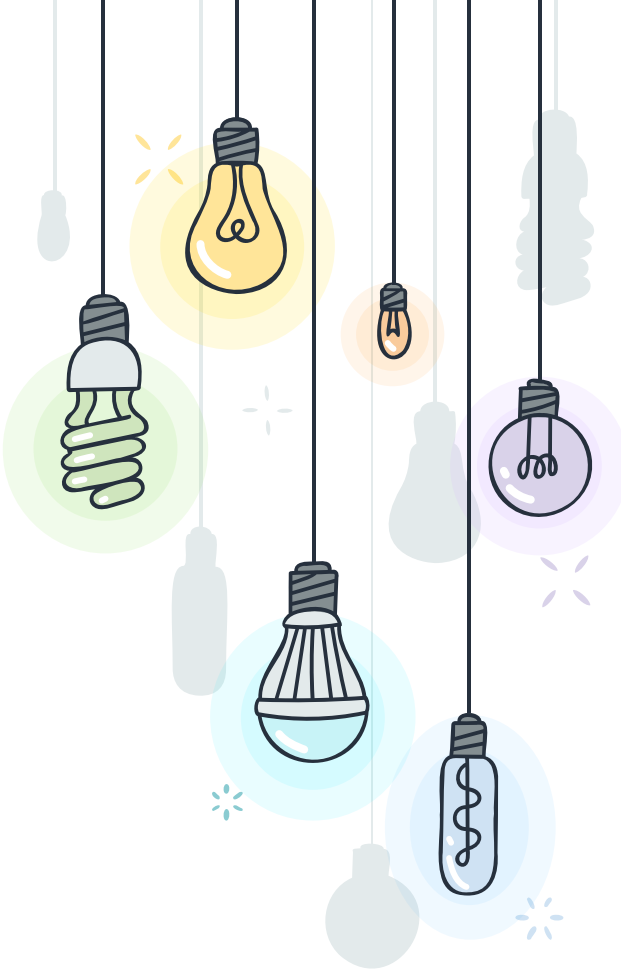
Health care market

- Equilibrium of demand and supply curves!
- Perfectly competitive markets rarely exist in health care markets
- The origin of health economics is the realization that the market for health care is very different than other markets
  - Uncertainty
  - Asymmetric information



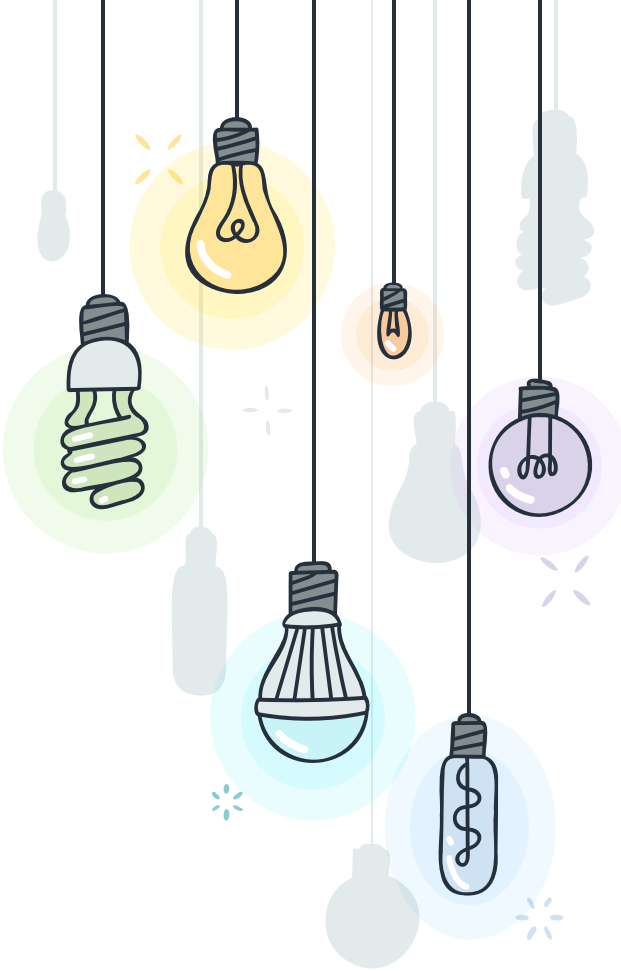
INSURANCE

- Why do people buy insurance?
- Public sector (Medicaid, Medicare) vs Private sector



GOVERNMENT

- **Role of government in health care sector**
  - Market failures
  - Externality
  - Financing of health care system work?
  - How other countries' health care system work?



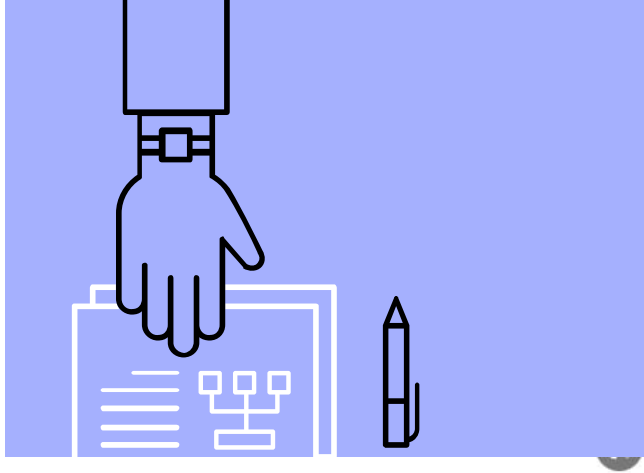
Where does Economics fit in here?

The birth of Health economics

Perfectly competitive market = Unicorn

- Homogeneous products
- Perfect information
- Price takers (no control over prices)
- Many producers and consumers
- No barriers to entry
- Profits are zero in the long run

If these conditions are met, market allocate resources in an optimal (_____) way!

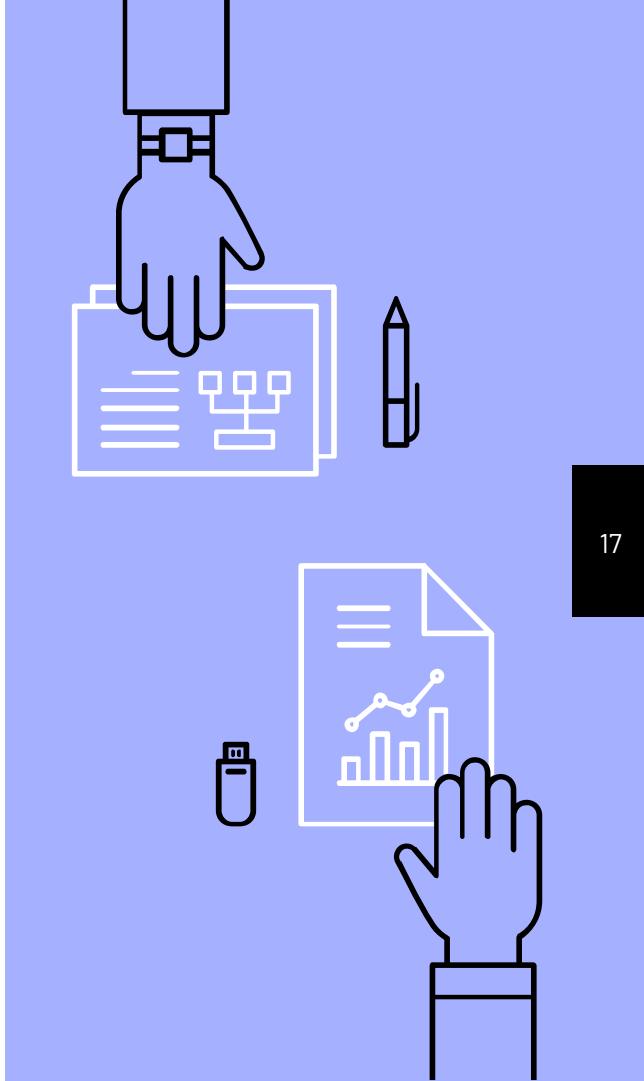


How does the health care market fits in the framework of Perfectly competitive market?

Very badly.

Health Economics

- The founding of Health economics
  - Kenneth Arrow's 1963 article: "Uncertainty and the Welfare Economics of Medical Care", *American Economic Review*
- Main difference between HC market and PC market: _____
- Uncertainty implies _____

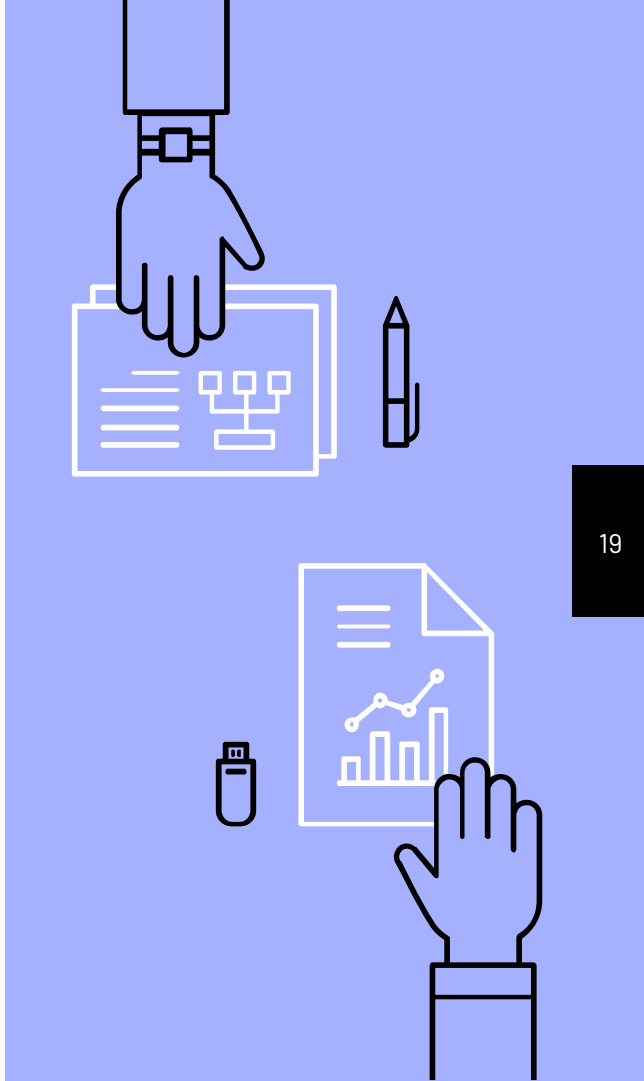


Adam Smith's Invisible hands

- Out of self-interest, the market allocates scarce resources efficiently
- We are talking about efficiency, not fairness
- Prices determine the allocation of resources.

U.S. has market-based system, but without much competition… Monopolies and Oligopolies

- Just one or a group of producers
- Price setters
- Market power
  - No alternatives!
  - e.g.) rural hospital
- Monopoly price is higher than the price in a PC market
  - Consumers lose value (CS)
- Governments regulate (antitrust laws)



Why Health Care market doesn't work well

U_____

-We don't know when we will need healthcare

- We don't even know the price

E_____

- Negative
- Positive

A_____ Info

- One knows more relevant info than the other
- Don't know the quality of providers
- Insurers know less about your health

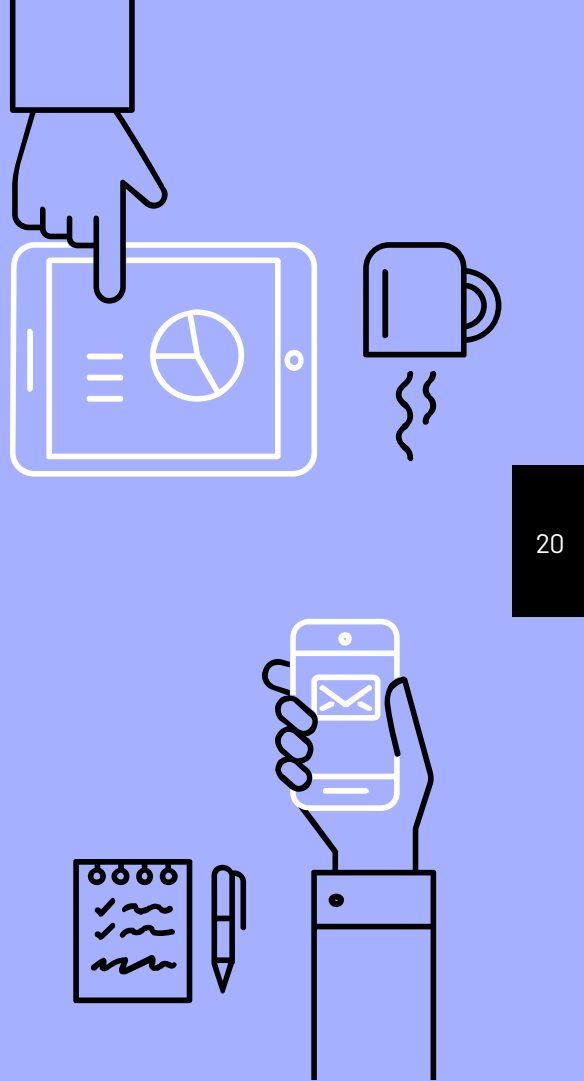
R_____

- No free entry
- Providers, number of medical schools, insurance companies

P_____

- Central in the allocation of resources
- Moral hazard

Extremely h_____p roducts

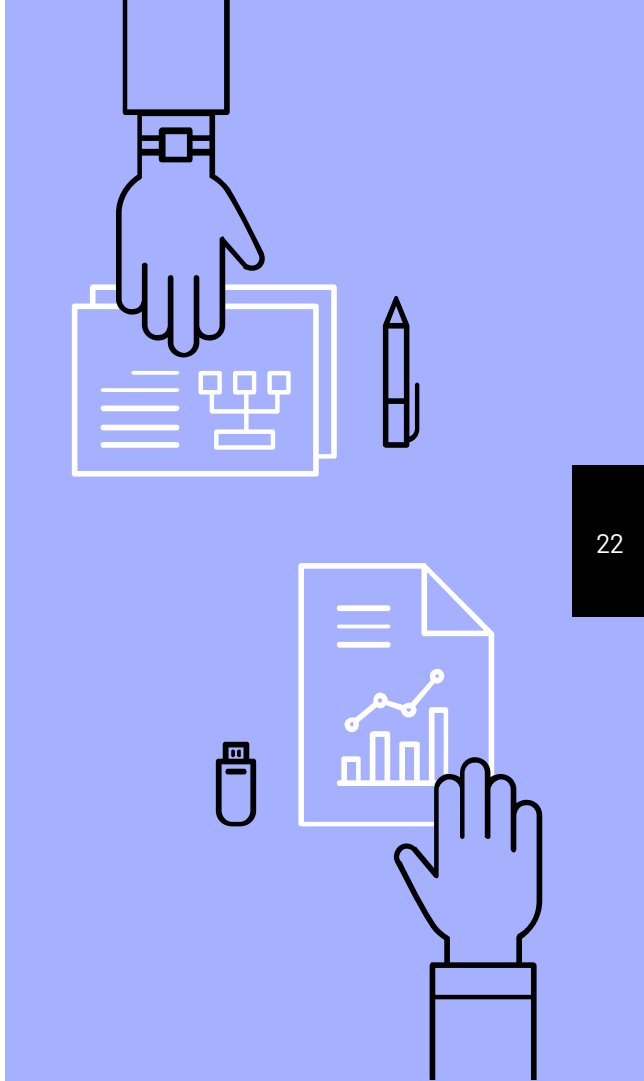


Physical Strength is National Strength!

Does the country become more powerful if citizens all become healthy and strong?

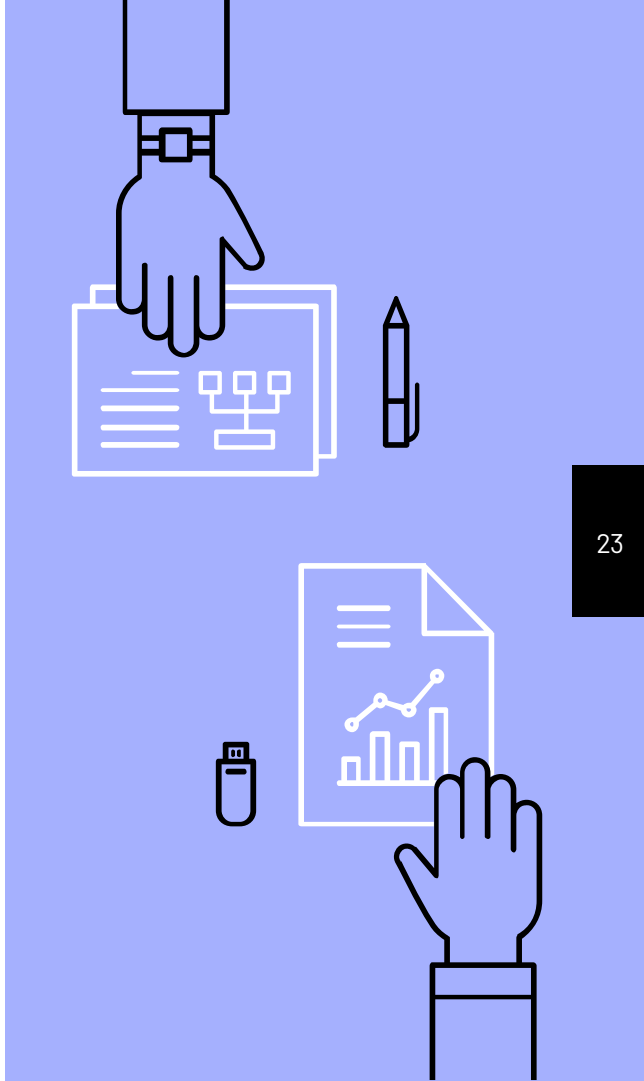
Let's Fact-check! (stat.OECD.org)

- US spends _____% of its GDP on healthcare
  - Highest share among OECD countries
  - Average expenditure among other OECD countries is 9%
  - So what?
- We are spending so much money on healthcare, so we must be absurdly healthy!
  - Infant mortality rate, maternal mortality rate : #__ out of 36 OECD countries
  - Obesity, diabetes, cardiovascular diseases:
  - Life expectancy: _____(OECD avg: 81)



Let's Fact-check!

- US health care industry grows faster than nearly any other sector
  - Price of hospital services has outpaced inflation by a factor of two to three times
  - _____ systems and _____companies are making record profits.
- Average American family of 4 pays $_____ a year for insurance coverage
- https://www.oecd.org/health/health-at-a-glance/

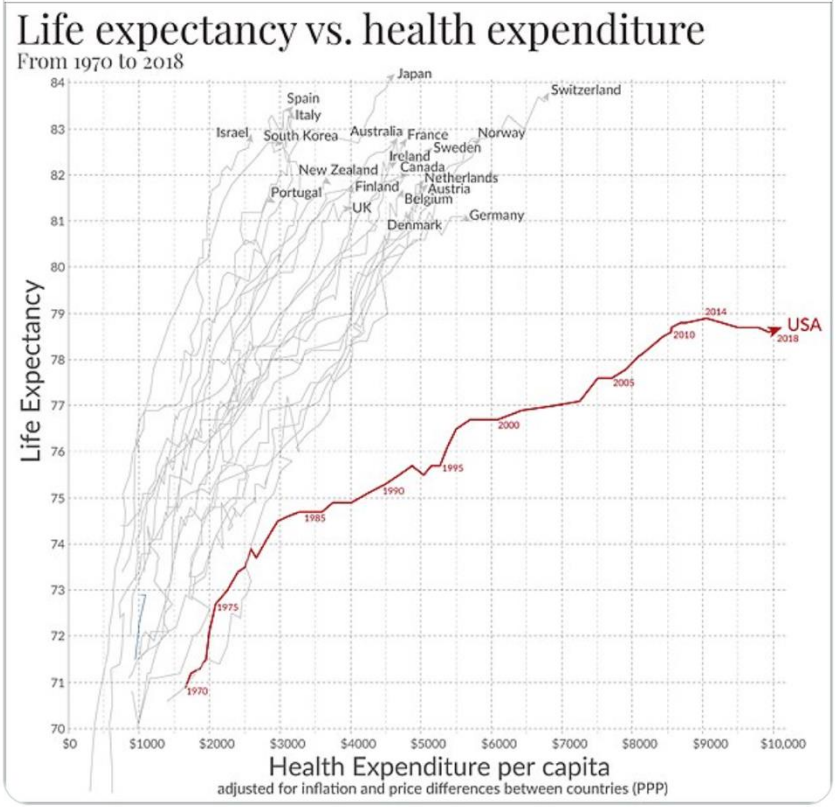


Daniel Millimet @dlmillimet · 5h

Everything is fine here in the US. Nothing to see.

Andy Tran @andy23tran · 9h

What's going on here?



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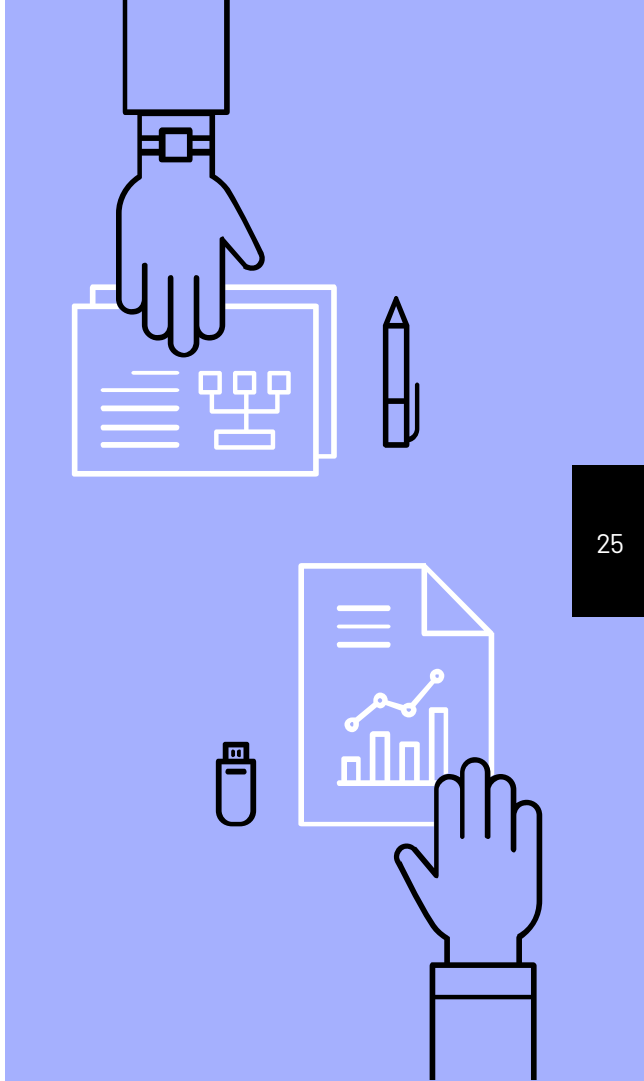
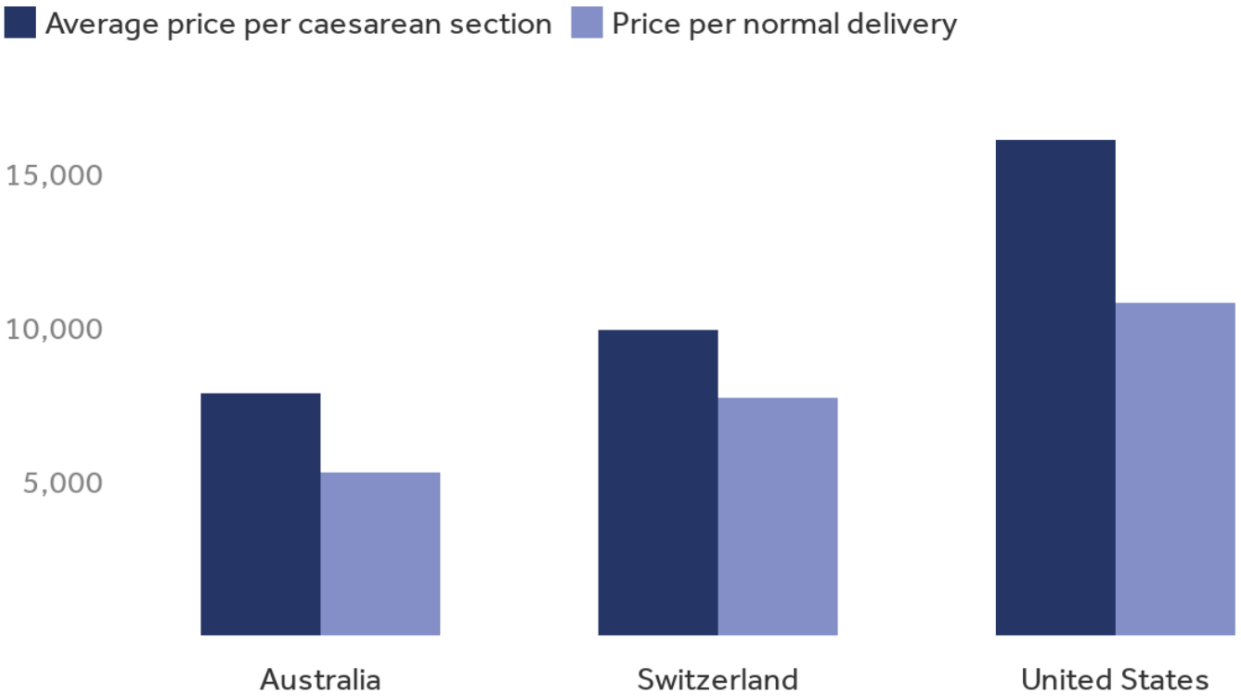
WHY?

1. Too many Uninsured (9.8%)
2. Really high prices



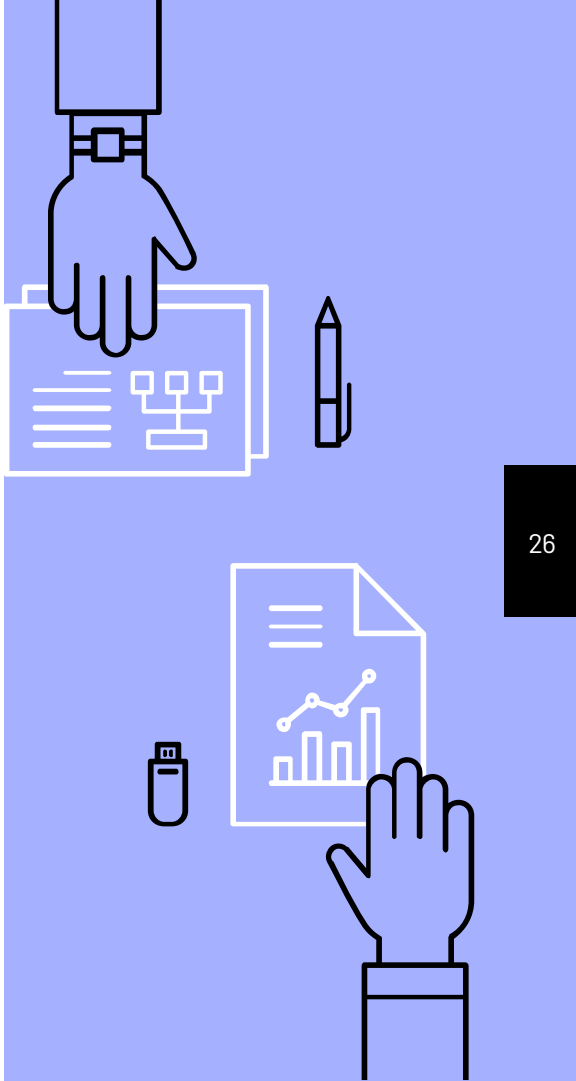
Average price of caesarean section and of normal delivery, 2014



Note: Data for United States represents average cost in employer-sponsored plans. Data from Australia, Switzerland and the United Kingdom represent average private sector costs.

Source: International Federation of Health Plans (2015), "2015 Comparative Price Report, Variation in Medical and Hospital Prices by Country" (Accessed on January 30, 2018).

Peterson-KFF
Health System Tracker



Average price of an MRI, 2014

Note: Data for United States represents average cost in employer-sponsored plans. Data from Australia, Switzerland and the United Kingdom represent average private sector costs.

Source: Kaiser Family Foundation analysis of data from International Federation of Health Plans (2015), "2015 Comparative Price Report, Variation in Medical and Hospital Prices by Country"

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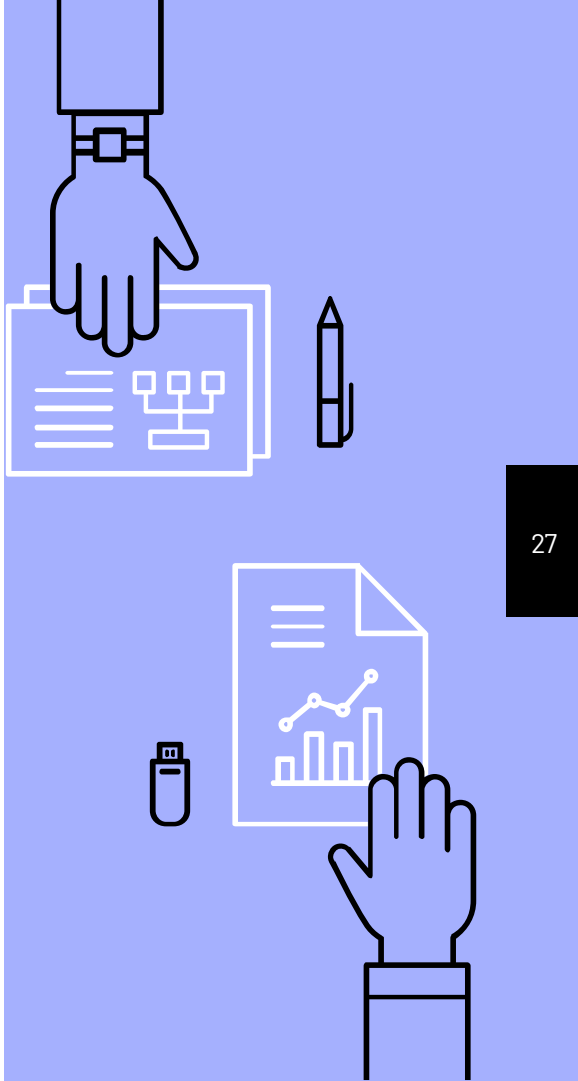
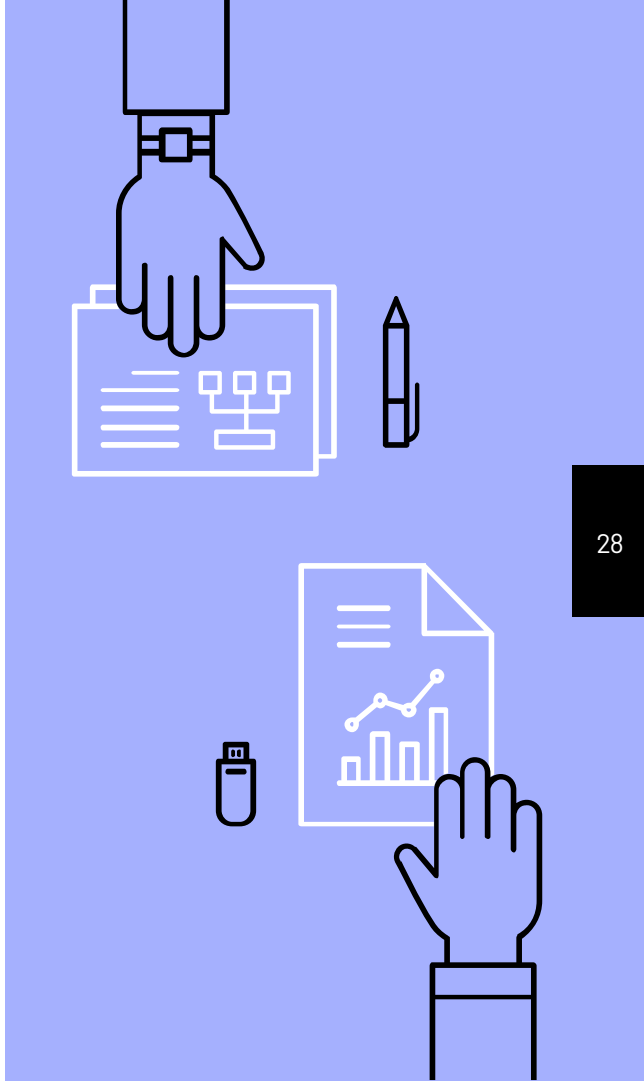


WHY?

1. Too many Uninsured (9.8%)
2. Really high prices
3. Variation in prices
   - Different Prices for different people
     - Negotiation with private insurers (bargaining problem)
     - Set payment from Medicare&Medicaid
     - Uninsured patients (charge amounts)
     - prices≠charge ≠cost ≠patient out-of-pocket spending



Where do we go from here?

Government intervention?

A single payer system?

Sensible policies?