

Essentials of Health Economics

SECOND EDITION

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Dedication

*To two men in my life who supported and inspired
me during the endless revision of this text:
Bill Eichengrun and Jack Rickert.*



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I could have never completed the book without the support and understanding of my family and friends. Thank you all for your patience while this *Second Edition* was developed.



Prologue

Money talks and we need to listen if we are going to improve our health system. To understand what is being said, students in public health, health administration, and clinical health professions, as well as undergraduates trying to understand these fields, must appreciate the basic principles of economics and their application to health economics.

Essentials of Health Economics provides a concise step-by-step approach to appreciating the key principles and applications of economics. It introduces readers to the principles of economics as they apply to health systems. It then relates these principles to current healthcare and public health issues. Students come away with the tools and concepts needed to understand the debates about the future of the U.S. health system.

Dr. Dewar's style is approachable and intuitive. It is accessible and appropriate for undergraduates, clinically oriented students, and those in related fields. It does not require complicated mathematical formulae and emphasizes common-sense explanations. It does not require previous courses in economics or mathematics. However, it does require an interest in understanding how the world really works and how principles of economics can be used to improve the health system. Readers will carry away an enduring understanding that will serve them well as public health professionals, healthcare administrators, clinicians, or educated and interested citizens.

This *Second Edition* includes important information on the healthcare reforms currently faced at the state, national, and international levels as well as updated system-level statistics and organizational models to allow a timely approach to the study of the public healthcare system through the lens of economics. The *Second Edition* will help students to understand the healthcare system and use that knowledge to improve it.

Health economics is not the dismal science that once described economics. It is an everyday tool that will help readers find their way through the maze of public health and healthcare issues. Give it a try—it is well worth the time.

Richard Riegelman, MD, MPH, PhD
Editor, *Essential Public Health Series*



Preface

The *Second Edition* of this book addresses the important economic and public health policy issues that serve as the background for the healthcare debate concerning access to a healthcare system dominated by increasing resource pressures.

The primary goals of this book are to enable undergraduate students and graduate-level noneconomists in related fields to:

1. Recognize the relevance of economics to health care and apply economic reasoning to better understand health care and health-related issues.
2. Understand the mechanisms of healthcare delivery in the United States and other countries within broad social and economic contexts.
3. Explore the changing nature of health care, health-related technology, and workforce planning and their implications for medical practice and public health policy.
4. Analyze public health policy issues in the healthcare sector from an economic perspective.

To accomplish these goals, the second edition's 18 chapters are organized into the following five parts.

PART I: WHAT IS HEALTH ECONOMICS?

The text begins with a basic overview of the U.S. healthcare system that emphasizes economic issues that affect healthcare delivery and finance. Chapter 1 examines the main system-level issues and the organization of the system. Chapter 2 demonstrates the usefulness of economics in understanding healthcare issues.

PART II: HEALTHCARE MARKETS

Part II examines the competitive market in Chapter 3, the “failures” of the competitive framework in an expanded Chapter 4, as well as the role of government interventions to correct for failures in the competitive market in Chapter 5.

PART III: DEMAND

Part III examines the demand side of the healthcare economy. Chapters 6 and 7 present the factors that influence the demands for health and health care. They explore the observed patterns in the quality and price of health care. Chapter 8 discusses the market for health insurance, including the private and social insurance models. Chapter 9 provides a discussion of health disparities that place increasing pressures for equity on U.S. healthcare expenditures.

PART IV: SUPPLY

Part IV discusses various aspects of the supply side of the healthcare economy. Chapter 10 describes the factors that influence the overall supply of health care, whereas Chapter 11 addresses the underlying production and costs that drive supply. Chapter 12 presents the market for healthcare personnel—namely, physicians and nurses—as well as the factors that influence the behavior of healthcare personnel. Chapter 13 explores the role of technological innovation and diffusion in the healthcare sector, the latest technological innovations used in the U.S. health economy, and the reasons why technology is a major factor in the rising costs of health care.

PART V: EVALUATING THE HEALTHCARE SYSTEM

This final part explores analytical methods of evaluation as well as the role of healthcare reform in the attempt to contain costs in the healthcare economy. Chapter 14 presents the models for economic evaluation and Chapter 15 compares the healthcare systems of the United States, Canada, Germany, and the United Kingdom. Chapter 16 discusses health system issues across various countries and their motivations for healthcare reform. Chapter 17 is an expanded chapter that presents healthcare reform motivations and initiatives at the state and national levels, including cases on Massachusetts and Vermont, as well as the rationale for implementation of the Affordable Care Act. Chapter 18 summarizes the major lessons learned from the economic approach to public health policy and makes recommendations to reform the healthcare system.

PEDAGOGICAL FEATURES AND LEVEL

There is tremendous excitement in the healthcare field, such as the transformation of organizational arrangements, medical technology advances, the development of new healthcare financing mechanisms, and the evaluation of the healthcare system policies that lend themselves to economic analysis. This *Second Edition* includes more information about healthcare reforms currently faced at the state, national, and international levels as well as updated system-level statistics to allow a timely approach to the study of the public healthcare system through the lens of economics. Students and faculty will be able to grasp the importance and relevance of health economics as well as how it relates to more general analysis of health policy issues through numerous examples and cases throughout the text. The *Second Edition* also includes notable health economists and other economists who contributed to health economics so that readers may grasp the many avenues and methods that are included in the field of economics. This book will have wide appeal among students of public health and health administration because it conveys the essence of the economic issues at hand while avoiding complicated methodological issues that would interest only students of economics.

This text is written with the nonspecialist in mind while focusing on how to conduct descriptive, explanatory, and evaluative economics in a systematic way. This book is accessible to undergraduates and those in related fields at the graduate level who do not have much prior knowledge of health economics or mathematics. It will be a useful introductory text in health economics that does not require any other economics prerequisites. The text would be appropriate for students in the following areas: in a school of public health; as an introductory course in health economics in an economics department; in a medical, nursing, or pharmacy school; or in a health administration program.

Diane M. Dewar

About the Author

Diane M. Dewar, PhD, is an associate professor in the Department of Health Policy, Management and Behavior, School of Public Health, and the Department of Economics at the University at Albany, State University of New York. She is also the university's director of the Institute for Health System Evaluation. She has more than 20 years of teaching experience that includes graduate courses in health economics and health policy and economic evaluation methods, as well as undergraduate courses in microeconomics, macroeconomics, econometrics, health economics, comparative health policy, introductory sociology, and introductory psychology.

Professor Dewar received her PhD in economics from the University at Albany, with concentrations in health economics and econometrics. She is a recipient of the William Waters Research Award from the Association of Social Economists, honorable mention for the Aetna Susan B. Anthony Award for Research on Older Women from the Gerontological Section of the American Public Health Association, and past president of the Public Health Honor Society, Delta Omega, Alpha Gamma Chapter. She has been a principal investigator or co-investigator on grants from the Agency for Healthcare Research and Quality, the Robert Wood Johnson Foundation, the Kaiser Family Foundation, and the Centers for Disease Control and Prevention. She was chair of the National Fellowship Panel of the American Association of University Women, has served on the Agency for Healthcare Research and Quality grant review study groups, and serves on the Health Economics Committee of the Medical Care Section of the American Public Health Association.

Professor Dewar has provided extensive service to the university community. For these efforts, she is the recipient of the University at Albany Excellence in Academic Service Award, as well as the State University of New York Chancellor's Award for Academic Excellence.

Professor Dewar's experience in the book development process includes serving as a reviewer of numerous economics and health policy textbook proposals and manuscripts from such publishers as John Wiley and Sons, Jossey-Bass, and Worth. She also has contributed chapters to numerous edited volumes.

Professor Dewar is also an ad-hoc reviewer for journals that include *Medical Care*, *Annals of Internal Medicine*, *CHEST*, and *Critical Care Medicine*. She has authored or coauthored many articles and book chapters regarding technology assessments for those with respiratory diseases, health insurance access, and the social economy of medical care. She is also a two-time recipient of letters of commendation from the *Annals of Internal Medicine* and *CHEST* for her service as a referee for these journals.

