



Transition Guide

The Economics of Health Reconsidered **Fourth Edition**

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Now in its fourth edition, *The Economics of Health Reconsidered* presents an argument that still holds true: despite assertions to the contrary, neither economic theory nor evidence shows that reliance on market forces leads to superior outcomes in healthcare systems. Government plays a crucial role in making the healthcare sector not only more equitable but also more efficient. This book reconsiders the field of health economics as it is traditionally taught and practiced. It critically examines economic theory as applied to the health sector and questions the prevailing belief that a competitive healthcare marketplace results in the best outcomes.

This book serves as an ideal stand-alone text for health economics and health policy courses and as a general reference for issues in health economics.

Changes in the Fourth Edition

All chapters, figures, and tables have been thoroughly updated in this edition. Two new chapters were added to the book:

NEW! Chapter 10 – Healthcare Expenditures

This chapter provides a close examination of healthcare expenditures, both in the United States and in other high-income countries. It includes information on causes of high expenditures, their magnitude and growth, and different trends and policies that have been used or proposed to help control them. This chapter also provides a thorough update of all other material.

NEW! Chapter 11 – Economic Evaluation in Healthcare

Chapter 11 reviews the topic of economic evaluation in healthcare, providing training in how to conduct an economic evaluation and discusses related issues. It presents tools including cost minimization, cost-benefit, cost-effectiveness, and cost-utility analysis.

Placement of Particular Topics

Chapter 2 (The Traditional Competitive Model)

- Utility
- Demand
- Indifference curves
- Budget constraints
- Consumer and producer optima
- Demand curves and functions
- Income and substitution effects
- Elasticities

- Production
- Costs
- Supply
- Isoquants
- Isocost curves
- Short- and long-run costs
- Equilibrium in a competitive market
- Equilibrium in a monopolistic market
- Price discriminating monopolists
- Production possibility frontier
- Pareto optimality
- Social welfare

Chapter 3 (Assumptions Underlying the Competitive Model and Implications for Markets and Government)

- Assumptions of the competitive model
- Market failure
- Government failure
- Capture theory
- Economic theory of regulation
- Public choice theory

Chapter 4 (Demand for Health, Insurance, and Services)

- Critique of traditional economic model
- Consumer sovereignty
- Counterfactual questions
- Rationality
- Theory of demand for health
- Theory of demand for health insurance
- Price elasticity of demand for health insurance
- Theory of demand for health services
- Moral hazard
- RAND Health Insurance Experiment
- The Oregon Medicaid Experiment
- Cost sharing, patient cost sharing
- External validity
- Welfare loss from “excessive” health insurance
- Consumer surplus
- Health savings accounts and high-deductible plans
- Consumer-directed health plans

Chapter 5 (Special Topics in Demand: Externalities of Consumption and the Formation of Preferences)

- Externalities of consumption
- Interdependent utilities
- Impact of distribution of income on health
- Impact of taxes and incentives

- Welfare economics
- Relative versus absolute wealth
- Allocation versus distribution
- Formation of tastes and preferences
- Milgram's "obedience experiments"
- Health education
- Can there be "too much choice"?
- Prevention
- Desirability of controlling costs

Chapter 6 (How Competitive Is the Supply of Healthcare?)

- Independence of supply and demand
- Supplier (physician)-induced demand
- Capitation and other reimbursement incentives
- Pay for performance
- Practice guidelines
- Utilization management
- Selective contracting
- Managed care
- Managed care backlash
- Market power
- Cost shifting
- Cross-subsidization
- Certificate of Need
- Returns to scale
- Economies of scale

Chapter 7 (The Profit Motive in Healthcare)

- Nonprofit and for-profit ownership
- Ownership conversions
- Mergers and takeovers
- Property rights theory
- Trust-signal theory
- Public goods theory
- Charity care
- Up-coding
- Specialty hospitals
- Focused factory
- Physician self-referral
- Cherry-picking and cream-skimming
- Pharmaceutical industry
- Commercialization, corporatization, and medicalization of healthcare

Chapter 8 (The Healthcare Workforce)

- Labor markets

- Derived demand
- Short-run demand for labor
- Marginal product of labor
- Marginal revenue product of labor
- Long-run demand for labor
- Wage elasticity
- Capital-labor decision
- Labor substitutes and complements
- Capital-labor substitution
- Labor-labor substitution
- Labor participation
- Backward-bending supply curve
- Demand for leisure model (labor/leisure model)
- Labor-leisure trade off
- Human capital
- Discounting
- Return on investment
- Wage rigidity
- Monopsony
- Independence of supply and demand of labor
- Need versus demand for healthcare and healthcare labor
- Physician supply, demand, equilibrium, shortages, surpluses, maldistributions
- RN supply, demand, equilibrium, shortages, surpluses, maldistributions
- Forecasting workforce adequacy
- Optimizing the healthcare workforce

Chapter 9 (Equity and Justice)

- Edgeworth Box
- Utilitarianism
- Social justice and fairness
- Rawlsian philosophy
- Libertarianism
- Equity and equality
- Sen, equalizing capabilities, and commitment
- Maximizing health versus utility
- Commitment
- Cash versus in-kind transfers
- National health insurance

Chapter 10

- Spending trends (U.S. and international)
- Determinants of expenditures
- Monopsonistic purchasing power
- Single-payer systems
- All-payer systems

- Medical technology
- Administrative costs
- Demand vs. supply-side strategies
- Managed competition
- Utilization management
- Practice guidelines
- Global budgets

Chapter 11 (Economic Evaluation in Healthcare)

Chapter 12 (Healthcare Systems in Developed Countries: Organization, Outcomes, and Lessons)

- Different models for approaching the role of government
- Structuring societal health insurance systems
- Universal coverage
- Cross-national comparisons of spending, access, and quality
- “Lessons” on the role of government in healthcare systems

Ancillary Materials

The instructor resources for this book includes PowerPoint slides, a list of important chapter concepts, discussion questions with answers, and additional readings for each of the main chapters in the book.