

## Instructor Resources Sample

This is a sample of the instructor materials for *Economics for Healthcare Managers*, Fifth Edition, by Robert H. Lee, PhD.

The complete instructor materials include the following:

- PowerPoint slides
- Instructor's guide, with a lesson plan for each chapter, answers to the study questions, and guides to the case studies
- Test bank

This sample includes the materials for chapter 1.

If you adopt this text, you will be given access to the complete materials. To obtain access, e-mail your request to [hapbooks@ache.org](mailto:hapbooks@ache.org) and include the following information in your message:

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# Chapter 1

## Why Health Economics?

# After mastering this material, students will be able to

- **Describe how economics helps managers**
- **Identify major challenges for managers**
- **Find healthcare outcome information**
- **Identify positive and normative economics**

# Why is economics valuable for managers?

- **Simplification**
- **Understanding**
  - Costs
  - Value
  - Basic organizational principles

# **Economics is a map for decision-making.**

- **It suppresses what is not important.**
- **It highlights what is important.**

# Economics analyzes the allocation of scarce resources.

- **Resource = something useful**
  - In consumption
  - In production
- **Scarce = has alternative uses**

# Work with a partner

- **Identify a resource that you use**
  - What is it?
  - How do you use it?
  - What are its other uses?
- **Is it a scarce resource?**

# Economics analyzes *rational* behavior.

- **Rational**
  - Doing your best to realize your goals
  - Given your resources.
- **But behavior is not always fully rational**
  - Shortcuts may get in the way.
  - Chapter 18 examines this.



# Limits to rationality

- **Management time is scarce, so**
  - complete rationality is irrational.
  - managers use decision shortcuts.
- **This may lead to bad choices.**

# The Three Questions

- ***What* shall we produce?**
- ***How* shall we produce it?**
- ***Who* gets what we produce?**

# What shall we produce?

- **Implicitly, what won't we produce?**
- **What do we give up by spending 19.7% of national income on healthcare?**
  - Work with one or two other students.
  - Take five minutes.
  - Offer two examples.

# How shall we produce?

- **What inputs will we use?**
- **What inputs won't we use?**

# How shall we produce?

- **A primary care practice is open 35 hours per week and produces 280 visits.**
  - Two MDs and two RNs
  - Four nonclinical staff
- **Work with two other students.**
  - Take five minutes.
  - Offer two suggestions for change.

# What are major challenges for healthcare managers?

- **Insurance**
- **Risk and uncertainty**
- **Information asymmetries**
- **Not-for-profit organizations**
- **Technical and institutional change**

# Insurance

- **Multiple “customers”**
  - Patient
  - Insurer
- **Complex billing rules**
- **Dependence on a handful of insurers**
  - Medicare
  - Blue Cross

# Ongoing Changes to Insurance

- **New types**
  - High-deductible plans
  - Individual plans
- **New focus on costs**
- **New focus on population health**



# Risk and uncertainty

- **The usual uncertainties of business**
  - The behavior of rivals
  - The state of the economy
  - Novel health problems (e.g., COVID)
- **How does the economy affect healthcare?**

# Risk and uncertainty

- **The special problems in healthcare**
  - What causes a bad outcome?
  - What causes a good outcome?
    - Bad luck?
    - Poor performance?
- **This is hard in healthcare.**

# Who gets what we make?

- **How will products be allocated?**
  - Prices?
  - Waits?
  - Insurance coverage?
  - Rules and regulations?
- **Who gets less and who gets more?**

# Who gets what we make?

- **Who gets too little medical care?**
- **Who gets too much?**
  - Work with one or two other students.
  - Take five minutes.
  - Offer two examples.

# Information Asymmetries

- **Have you ever done business with someone who grasped the situation better than you?**
  - What were the circumstances?
  - How did you react?
- **Share your story.**

# **Information asymmetries are common problems.**

- **Supervisors and subordinates**
- **Professionals and clients**
- **Insurers and customers**
- **Insurers and providers**

# Reactions to information asymmetries

- **Accepting flawed recommendations**
- **Rejecting sound recommendations**
- **Extensive performance monitoring**
- **Emphasis on reputations and repeated interactions**
- **Warranties**

# Not-for-profit organizations

- **Have multiple objectives**
- **Can be**
  - hard to run
  - vehicles for tax avoidance
  - useful vehicles for social goals
- **Very common in healthcare**



# Change is a challenge for healthcare managers.

- **The financing system is changing.**
- **Technical change is a constant.**
  - Drugs
  - Imaging and testing
- **Falling behind is a recipe for disaster.**

# What economic information do healthcare managers need?

- **Customers compare cost and value.**
  - Compared to other providers' products.
  - Compared to other healthcare products.
  - Compared to other products.
- **Managers need to know how they stand.**

# How can you compare your products to

- **Other providers' products?**
- **Other products?**
  - Medical
  - Nonmedical

# You manage a hospital. What other information should you seek?

- **What rivals plan to do**
  - Other hospitals
  - Nonhospital competitors
- **What's happening to purchasing power**
  - Wages and incomes
  - Insurance coverage
- **What changes in public policy are likely**

# Economic Tasks

- **Description**
- **Explanation**
  - Analysis of historical data
  - Analysis of theoretical predictions
  - Testing predictions on unanalyzed data
- **Evaluation**

# Economic Tasks

- **Description**
- **Explanation**
- **Evaluation**
  - Efficiency
  - Equity

# Most Economic Studies Combine All Three Tasks

- **Description: How do HMOs pay MDs?**
- **Explanation: Do incentives reduce costs?**
- **Evaluation: Would changing MD pay increase population health?**

# Efficiency is a concern

- Which of these are not efficient?

	Cost	Quality
<b>A</b>	<b>\$200</b>	<b>98%</b>
<b>B</b>	<b>\$150</b>	<b>98%</b>
<b>C</b>	<b>\$150</b>	<b>90%</b>



# Both total and marginal analysis are valuable.

- **Total Analysis**

- Is this project worth doing?
- Does its total value exceed total cost?
- Does its total revenue exceed total cost?

- **Marginal Analysis**

- Should we do more or less of this?
- Would doing more add more value than cost?
- Would doing less cut revenue than cost?

# Using marginal and total analysis

- **This firm is for-profit**
- **Is the firm profitable**
  - with one clinic?
  - with two clinics?
- **Should the firm have two clinics?**
- **Which question uses marginal analysis?**

	<b>One Clinic</b>	<b>Two Clinics</b>
<b>Revenue</b>	\$200,000	\$340,000
<b>Cost</b>	\$150,000	\$300,000
<b>Profit</b>	\$50,000	\$40,000

# **Economics should be read slowly, with a pen and paper.**

- **Read carefully.**
  - Work through examples and figures.
  - Figure out what you do not understand.
- **Ask questions.**

# Summary

- **Managers need economic skills to**
  - describe
  - explain
  - evaluate
  - plan

# Economics focuses on

- **description of “relevant” data.**
- **analysis of data.**
- **evaluation of outcomes.**

*The value of economics lies chiefly in questions it asks.*

# Review

- **Why is economics valuable for managers?**
- **Healthcare managers**
  - **What special challenges do they have?**
  - **What current information do they need?**

# Review

- **Which exemplify positive economics?**
  1. Higher copayments reduce use of services.
  2. A high-deductible insurance plan is unfair.
  3. Tobacco taxes should be increased.
  4. A higher tobacco tax will reduce teen smoking.
  5. High income consumers use more dental care.
  6. Waits for care are too long in the US.

# Reflection

**What did you learn today?**

**What remains unclear?**

**What questions do you have?**



*Economics for Healthcare Managers (5th edition)*  
**Instructor's Guide**

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## Chapter 1: Why Health Economics?

### Key Concepts

- Economics helps managers focus on key issues.
- Economics helps managers understand goal-oriented decision-making.
- Economics helps managers understand strategic decision-making.
- Economics gives managers a framework for understanding costs.
- Economics gives managers a framework for understanding market demand.
- Economics gives managers a framework for assessing profitability.
- Economics helps managers understand risk and uncertainty.
- Economics helps managers understand insurance.
- Economics helps managers understand information asymmetries.
- Economics helps managers deal with rapid change.

### Solved Exercises

- 1.1. Why is the idea that value depends on consumers' preferences radical? *That departs from the idea that physicians define what services are valuable. This has been codified by insurers, who are willing to pay for some services that patients want and not for others.*
- 1.2. Mechanics usually have better information about how to fix automobiles than their customers do. What problems does this advantage create? Do mechanics or their customers do anything to limit these problems? *In principle mechanics could recommend services that customers don't need. In practice, mechanics recognize that keeping*

customers happy and maintaining a good reputation are vital. In addition, customers rely on recommendations from other customers.

- 1.3. A mandatory health insurance plan costs \$4,000. One worker earns \$24,500 in employment income and \$500 in investment income. Another worker earns \$48,000 in employment income and \$2,000 in investment income. A third worker earns \$68,000 in employment income and \$7,000 in investment income. A premium-based system would cost each worker \$4,000. A wage tax-based system would cost each worker 8.5 percent of wages. An income tax-based system would cost each worker 8 percent of income. For each worker, calculate the cost of the insurance as a share of total income.

	<b>Worker 1</b>	<b>Worker 2</b>	<b>Worker 3</b>
<b>E</b> = Employment income	\$24,500	\$48,000	\$68,000
<b>I</b> = Investment income	\$500	\$2,000	\$7,000
<b>P</b> = Premium cost of insurance	\$4,000	\$4,000	\$4,000
Premium as a percentage of income = $P/(E + I)$	16.0%	8.0%	5.3%
<b>W</b> = Wage tax cost of insurance = $0.085 \times E$	\$2,082.50	\$4,080.00	\$5,780.00
Wage tax cost as a percentage of income = $W/(E + I)$	8.3%	8.2%	7.7%
<b>T</b> = Income tax cost of insurance = $0.080 \times (E + I)$	\$2,000.00	\$4,000.00	\$6,000.00
Income tax cost as a percentage of income = $T/(E + I)$	8.0%	8.0%	8.0%

- 1.4. Which of the plans in exercise 1.3 would impose the largest burden on those with incomes under \$25,000: a mandatory insurance plan financed through premiums, through the income tax, or through a payroll tax? *Premium-based insurance claims twice the share of income for those with incomes under \$25,000.*
- 1.5. Which of the plans in exercise 1.3 would be the fairest? *This is a normative question, and economics does not offer answers. What do you think?*
- 1.6. Which of the preceding questions can you answer using positive economics? For which of the preceding questions must you use normative economics?
- 1.7. The following table shows data for Australia, the United Kingdom, and the United States.

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- How did female life expectancy at birth change between 2010 and 2018? *The answers are in the table.*
- How did expenditure per person change between 2010 and 2018? *The answers are in the table.*
- What conclusions do you draw from these data? *The United States had smaller gains in health status and larger increases in costs.*
- If you were the “manager” of the healthcare system in the United States, what would be a sensible response to these data? *What ideas can I take from other countries?*

	Life Expectancy (Years)			Expenditure per Person		
	2010	2018	Change	2010	2018	Change
Australia	81.8	82.8	1.0	\$3,893	\$4,965	\$1,072
United Kingdom	80.6	81.3	0.7	\$3,281	\$4,290	\$1,009
United States	78.6	78.7	0.1	\$8,559	\$10,637	\$2,078

Source: Data from OECD (2021).

Note: Expenditure per person has been translated into US dollars and adjusted for inflation.

### Case 1.1: Why Is the Pressure to Reduce Healthcare Costs So Strong?

#### Discussion Questions

- Why is spending so much more on healthcare than other countries a problem? *You can't buy other things, such as better highways, cleaner streets, better housing, more teachers, etc.*
- What can Americans not buy because of high spending on healthcare? *See above and add to it.*
- What factors other than healthcare affect a population's health? *Housing, nutrition, exercise, etc.*
- Does this evidence suggest that the American healthcare system is not efficient? *The entire system is not efficient, and healthcare is part of that.*
- What are social determinants of health? *Housing, nutrition, exercise, etc.*

### Case 1.2: Prices

#### Discussion Questions

- Why are prices so much higher in the United States? *There are two main reasons. The first is that governments have limited price negotiations to the insurance plans that they run. This can be explained by the lack of precedent, lack of price transparency, and lobbying by provider groups. The second is the structure of private health insurance. Many health systems have very strong negotiating positions, and until recently price information was not available. In recent years, some insurers and employers, having discovered that prices and quality were highly variable, have taken steps to steer patients toward providers with higher quality and lower prices.*
- Is it a problem that the United States spends so much on medical care? Why or why not? *It is a problem because many people struggle to afford medical care. They either do without or have to skimp on other things. If there were good evidence that care were better in the United States and that people were willing to pay for this, there would be no problem. There's little evidence for either idea.*
- How could the United States reduce prices for drugs, tests, and procedures? Should it? *It could either regulate prices or negotiate them. Whether it should is a normative question.*
- How would lower prices for drugs, tests, and procedures affect you professionally? *Revenues would fall for most providers, but the details are really important. What happens to Medicare, Medicaid, and private prices? If the changes incorporated standardization and simplification, fewer managers would be needed.*
- How would reductions in administrative costs affect you professionally? *If you are a provider, your costs would drop substantially. This would largely be due to layoffs of billing clerks and managers.*
- How would a 30 percent drop in hospital revenue affect you professionally? *Some hospitals would close, some would merge, and some would lay off workers. Your role determines the effect.*

### Activity 1.1: Looking Abroad

Go to the Commonwealth Foundation's *International Profiles of Health Care Systems* ([https://www.commonwealthfund.org/sites/default/files/documents/\\_\\_\\_media\\_files\\_publications\\_fund\\_report\\_2016\\_jan\\_1857\\_mossialos\\_intl\\_profiles\\_2015\\_v7.pdf](https://www.commonwealthfund.org/sites/default/files/documents/___media_files_publications_fund_report_2016_jan_1857_mossialos_intl_profiles_2015_v7.pdf)) and explore the following questions about the French, German, and Swedish healthcare systems:

1. What share of GDP is spent on healthcare?
2. How is insurance financed?
3. What do consumers pay for directly (out-of-pocket), and what share of the total is that?
4. How much does a visit to the doctor cost a patient?
5. Is reducing the cost of healthcare a major issue?