

Instructor Resources Sample

This is a sample of the instructor materials for *The Economics of Health Reconsidered*, Fifth Edition, by Thomas Rice, PhD, Lynn Unruh, PhD, and Andrew Barnes, PhD, MPH

The complete instructor materials include the following:

- PowerPoint slides
- Instructor Manual

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 and include the following information in your message:

- Book title
- Your name and institution name
- Title of the course for which the book was adopted and the season the course is taught
- Course level (graduate, undergraduate, or continuing education) and expected enrollment
- The use of the text (primary, supplemental, or recommended reading)
- A contact name and phone number/e-mail address we can use to verify your employment as an instructor

You will receive an e-mail containing access information after we have verified your instructor status. Thank you for your interest in this text and the accompanying instructor resources.

Digital and Alternative Formats

Individual chapters of this book are available for instructors to create customized textbooks or course packs at [XanEdu/AcademicPub](#). Students can also purchase this book in digital formats from the following e-book partners: [VitalSource](#), [Chegg](#), and [RedShelf](#). For more information about pricing and availability, please visit one of these preferred partners or contact Health Administration Press at hapbooks@ache.org.

The Concepts, Relevance, and Limits of Health Economics

Economics of Health Reconsidered

Chapter 1

Why Study Health Economics?

- Rise in health care spending coupled with competing priorities
- Changes in medical care delivery
- Crisis in access, affordability, and quality
- Increasing use of competitive markets in health care, e.g. managed care, reliance on consumer choice

Why Should Health Economics be Reconsidered?

- Recent interest in reforming the delivery of health care by replacing government regulation with reliance on market
- Perceived success of competitive markets is part of broader trend in which markets are viewed as efficient and government as inefficient

Why Should Health Economics be Reconsidered?

- Justifications for superiority of market-based systems stems from a misapplication of economic theory to health
 - A large number of economic assumptions are not met in health care
 - This is not adequately addressed by economists

Why Should Health Economics be Reconsidered?

- There is no reason to believe that market-based systems will operate more efficiently or provide a high level of social welfare than alternative system based on governmental financing and regulation.
- Many other countries deviate from market-based systems in healthcare.

Key Assertions of Health Economics Reconsidered

- Analyze assumptions of mainstream economics.
- Assess what happens to health policy choices if these assumptions are not met in markets for health services.

Key Assertions of Health Economics Reconsidered

- The failure of healthcare to meet many assumptions of a competitive market means that competitive approaches are not necessarily the best.
- Competitive approaches should be based on:
 - Policies being considered
 - Environment in which policies are to be implemented.

The Relevance of Economics in Health Care

- “Study economics in order to avoid being deceived by economists.”
--Joan Robinson
- Economic theory and methods, applied contextually, can help develop efficient methods of delivering health care.
- Health care policy-making based on sound economics is better than policy-making in an economic vacuum.

References

- Rice T., Unruh L., Barnes A. (2022). *The Economics of Health Reconsidered*. Fifth Edition, Chicago, IL: Health Administration Press

Chapter 1: Why Should the Economics of Health Be Reconsidered?

Overview

This chapter is short, serving to set the stage for the material that follows.

Concepts

- In recent years the United States and, to a lesser extent, other developed countries have moved toward more reliance on markets, both economy-wide and in their health systems. Whether this movement has been successful is not yet clear, although subsequent chapters of the book argue that it has not been successful in healthcare. In judging success, one must consider both outcomes (quality, access, equity) and inputs (expenditures). These issues are considered in Chapter 13.
- Two prominent examples are from the United States. In 2006, when Medicare expanded its benefits to include prescription drugs, Congress mandated that drug coverage could only be obtained from private insurers or managed care companies. More recently, the same was true when the major provisions of the Affordable Care Act (ACA) went into effect: insurance from the healthcare exchanges, which provides individual (as opposed to employer-based) coverage, also can only be obtained from the private market: Congress did not allow for a “public option.”
- The book contends that economic theory does *not* demonstrate that market-based systems are superior to alternative systems based instead on government financing because many of the assumptions on which the success of markets are based, given later in Exhibit 3.1, are often so badly violated in the health area.

Discussion Question and Suggested Answer

- 1) Most people would agree that public policy should not be made on theory alone. What do you think can be gained by using economic theory to make judgments about health systems?
 - Economic theory allows us to make predictions about the consequences of particular changes facing consumers and firms. For example, theory will tell us that if patients are charged more for a healthcare service, they are likely to avoid using it, or use less of it. Another example: if we pay physicians more, they will treat more patients. Subsequently, we can then examine evidence to see whether patients and providers acted in the way predicted. If they did, then we have some confidence that in similar situations in the future, we can predict responses to changes that occur in the marketplace. But theory can only predict; it can never demonstrate that a future action *will* occur. The theory may be wrong or incomplete; patients or doctors may react differently in the future than in the past;

Copyright 2023 The Foundation of the American College of Healthcare Executives.

Not for sale.

or there may be subtle differences in the future environment that results in different outcomes.

- Theory alone cannot be used to make judgments about the policy a country should adopt. All such judgments are based on values, and these values are merely opinions. To illustrate, many people believe that everyone should have healthcare coverage as a right. This belief, however, is a value judgment. Indeed, some people may be made worse off by universal coverage because they may have to pay more in taxes but will get little in the way of benefits. If such a person does not put much stock in living in a society where everyone is covered, it is difficult to argue that universal coverage is objectively superior. Conversely, others argue that the healthcare sector would operate better if we relied more on markets and reduced the role of government. This argument is also a value judgment, as many fare better in a system with heavier government involvement.
- In short, economic theory is useful in helping predict the consequences of alternative policies, but it is never sufficient for making judgments about which policies are superior to others.

Further Reading

- (1) Kuttner, R. 1997. *Everything for Sale: The Virtues and Limits of Markets*. New York: Alfred A. Knopf.

This book discusses the society-wide movement toward markets and some of the pitfalls that have arisen as a result. It has a chapter on markets and medicine, but equally useful are the earlier and later chapters that provide historical, theoretical, and political insights.

- (2) Thaler, R. H., and C. R. Sunstein. 2008. *Nudge: Improving Decisions About Health, Wealth, and Happiness*. New Haven, CT: Yale University Press.

Thaler and Sunstein, in earlier work, developed a theory called *libertarian paternalism*. The idea is that people should be allowed to choose as they wish (the libertarian part) but that government can often improve their decisions by “nudging” them towards choices that are in their best interest. In this book, the authors apply the theory, and more generally, behavioral economics, to many areas, including health. In health, they examine the issue of whether there is too much choice in Medicare prescription drug plans, as well as how to increase organ donation.