When I tell people that I am a health economist, I typically get a quizzical expression. After a long pause, people often ask me questions such as “Do you work in a hospital?” “Do you study HMOs?” “Are you an accountant? You must be good with numbers, right?” and “What is your opinion on healthcare reform?”

I then politely explain the field of health economics in terms that are accessible to those who are not an economist. This is no easy feat because many people do not understand what economics means, and some are only familiar with the term and its concepts from struggling through an introductory economics course in college.

Having a basic knowledge of economics and a familiarity with the analytic tools used by economists is incredibly powerful. The toolkit lets me (or any other user) take certain economic assumptions, combine them with present-day circumstances, and make a fairly educated guess about the future. What eventually happens in the future may be different from my predictions, but the toolkit gives me the means to understand the ripple effects of a health policy change.

HEALTH ECONOMICS IN THE CLASSROOM

In my undergraduate health economics class, I may assign students to read an article on medical school tuition increases and then pose this question: From an economist’s perspective, what are the effects of this tuition increase? Students may provide differing answers:
Fewer students will go to medical school.

The number of physicians will decrease.

The demand for nurse practitioners will increase.

These answers could all be correct. The class and I then explore their responses, grounding our discussion in economic theory:

In theory, an increase in the price of medical school decreases the quantity demanded for medical school education. If students are sensitive to changes in the price of medical education, the number of students applying to medical school may decrease. Conversely, if students are not sensitive to changes in the price of medical education, then the number of students applying to medical school may not change.

A decrease in the number of people willing to pay for a medical school education today may result in a decrease in the market supply of physicians a few years down the road. This theory assumes, of course, that the number of foreign medical graduates entering the market to take the place—or to supplement the supply—of US-trained physicians does not change.

A future decrease in the market supply of physicians—assuming no change in the demand for medical care—may result in an increase in the demand for nurse practitioners. However, the response in the nurse practitioners market depends on the extent to which nurse practitioners are accepted as physician substitutes in the production of healthcare.

Simply put, a change in one factor (e.g., price, quality, taste and preference) has many different ripple effects. We can anticipate some of these impacts by using our economic toolkit as a crystal ball, but other effects may take us by surprise.

Course Handouts

I have taught health economics for 15 years, and I always supplement the chosen textbook with a tremendous amount of handouts—journal articles and other reading material. These handouts are designed to explain complex economic ideas to people with minimal microeconomics knowledge. Over the years, I have noticed that more and more students seem to rely on the handouts as their first resource for mastering the core concepts discussed in class. These handouts were the building blocks for this book.
**Prerequisite Knowledge**

On the first day of class, I ask students to complete an ungraded assessment of their microeconomics knowledge. Following are examples of the types of questions I ask to assess this understanding.

1. What is marginal revenue?
2. Could you draw a demand-and-supply curve on the same graph, and then label both axes and both curves with the proper terms?
3. What information can be gathered by calculating the price elasticity of demand?
4. What are three characteristics of perfect competition?
5. What is a monopoly?

If students have difficulty answering the questions, I recommend that they keep an introductory microeconomics textbook close by.

**Organization and Contents of This Book**

I recommend that readers of this book have a basic knowledge of microeconomics (the root of health economics) and a firm grasp of the structure of the US healthcare system. An overview of health policy, health finance, or healthcare delivery concepts is not included here, because many other good books are available that cover these topics.

Each chapter can stand alone, but readers will get the most out of the text if they read the chapters in order. To this end, the chapters are sequenced in a precise manner, giving readers the opportunity to immerse themselves in the core concepts before they delve into the technical details. Each chapter is divided into two main sections: Core Concepts and Technical Elements. The Core Concepts section is a general, practical discussion of the chapter’s topic, while the Technical Elements section is more academic, containing concepts, theories, graphs, and equations related to the topic.

This clear division between the core and the technical contents facilitates a more organized approach to reading. It allows readers to learn both the general and specific ideas about a topic, but it also gives readers a choice to review the core section without the distraction of the technical section—or vice versa.

The book is structured around nine central concepts that, together, illustrate the connection between microeconomics and health policy. Each concept is the focus of a chapter:
Preface

Chapter 1: Thinking Like a Health Economist
Chapter 2: The Relationship Between Health and Wealth
Chapter 3: The Production of Health
Chapter 4: The Production of Healthcare
Chapter 5: The Demand for Healthcare
Chapter 6: Perfect Competition and Other Market Structures
Chapter 7: Physician Behavior
Chapter 8: The Insurance Market
Chapter 9: Cost-Effectiveness Analysis

To ensure each concept is covered as thoroughly as possible, I judiciously selected only nine concepts. In my opinion, these nine best capture the essence of health economics. Similarly, I selected only the most relevant and clearest literature to cite or reference throughout the book. In some instances the works cited may seem dated, but they are considered among the classics in the field.

The other features in this book are the Learning Objectives, the Takeaways for both core and technical sections, definitions in the margins of important terms, Key Formula boxes, Consider This examples and sidebars, and Review Questions. Key points are indicated by this font. Instructors who adopt the book may obtain access to the instructor resources, which contain a course lesson plan, PowerPoint slides, and quizzes. To access these resources, adopters should contact hapbooks@ache.org.

Conclusion

Economics is a theoretical and technical discipline. It is a way of thinking about how the world works. Knowing how to use, create, and read graphs and equations can impress those unacquainted with the discipline. However, the real illustration of one's understanding is the ability to not only explain the concepts but also apply them to real-world health policy.

The greatest reward for me is when students engage in intellectual discourse about health policy and use sound economic reasoning in the process. Winning or losing these debates is not the point. The point is to properly use the available economic concepts and toolkit—instead of relying on anecdotal evidence or gut feelings—to support an argument.

Good luck as you move forward in your career and engage in smart health policy discussions!