

This is a sample of the instructor materials for *Economics for Healthcare Managers*, fourth edition, by Robert H. Lee.

The complete instructor materials include the following:

- PowerPoint slides for each chapter
- An Instructor's Guide, featuring answers to the book's exercises and discussion questions
- A Syllabus Planner, to help with the structuring of a course around the book's chapters
- A test bank

This sample includes the PowerPoint slides, Instructor's Guide section, and Syllabus Planner section for chapter 1, "Why Health Economics?"

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:

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Digital and Alternative Formats

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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

Limits to rationality

- Management time is scarce, so. . .
 - Complete rationality is irrational.
 - Managers use decision shortcuts.

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 17% 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



Risk and uncertainty

- The usual uncertainties of business
 - The behavior of rivals
 - The state of the economy
- 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?

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
- Warrantees

Not-for-profit organizations

- Have multiple objectives
- Can be. . .
 - Hard to run
 - Vehicles for tax avoidance
 - Useful vehicles for social goals

Change is a challenge for healthcare managers

- The financing system is changing.
 - It is very expensive.
 - It yields mediocre outcomes.
- 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 efficiency?

Efficiency is a concern

- Which of these are not efficient?

	Cost	Quality
A	\$200	98%
B	\$150	98%
C	\$150	90%

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?

	One Clinic	Two Clinics
Revenue	\$200,000	\$340,000
Cost	\$150,000	\$300,000
Profit	\$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?

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.

Solved Exercises

- 1.1. Why is the idea that value depends on consumers' preferences a radical idea?¹ *The idea that "the customer is always right" is not widely held in healthcare. Insisting that consumers' preferences define value challenges the belief system of many professionals.*
- 1.2. Mechanics usually have better information about how to fix automobiles than their customers. What problems does this advantage create? Do mechanics or their customers do anything to limit these problems? *In some cases, mechanics take advantage of their customers. In other cases, customers are reluctant to take their car to a mechanic or follow his advice. Customers try to use information from associates to identify reliable mechanics and try to patronize one mechanic, understanding that taking good care of repeat customers is in the self-interest of the mechanic. Mechanics seek certification programs, develop brand names, and offer guarantees.*
- 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.

¹ The discussion questions in this guide can be analyzed in some length. The answers provided here are merely illustrative. An instructor who chooses to focus on the answer to a question will surely develop a more detailed response.

E = Employment income	\$24,500	\$48,000	\$68,000
I = Investment income	\$500	\$2,000	\$7,000
P = 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%
W = Wage tax cost of insurance = $0.085 \times E$	\$2,083	\$4,080	\$5,780
Wage tax as a percentage of income = $W/(E + I)$	8.3%	8.2%	7.7%
T = Income tax cost of insurance = $0.085 \times (E + I)$	\$2,000	\$4,000	\$6,000
Income tax as a percentage of income = $T/(E + I)$	8.0%	8.0%	8.0%

- 1.4. Which of the payment systems in exercise 1.3 would impose the larger burden on those with incomes under \$25,000: a plan financed via premiums, via the income tax, or via a payroll tax? *The easiest way to look at this is to compare the cost as a percentage of income. The premium cost is 16 percent of income for those with incomes under \$25,000, so it poses the greatest burden.*
- 1.5. Which of the plans in exercise 1.3 would be fairer? *Answering this question requires a definition of fairness, and different individuals will have different definitions. For example, one definition could be that the price was the same for everyone. Only the premium-based plan meets this test. Another definition of fairness might be having cost be the same percentage of income for everyone. Only the income tax-based plan meets this test.*
- 1.6. Which of the preceding questions can you answer using positive economics? For which must you use normative economics? *“Which plan would be fairer?” clearly involves normative decisions. It is tempting, but not entirely correct, to say that the analysis of the burden of health insurance costs involves no normative judgments. Making the decision to analyze spending as a percentage of income also reflects the analyst’s belief that this is the best way to describe spending. What one chooses to analyze often reflects one’s values, even if the analysis that follows is completely positive.*

- 1.7. The following table shows data for Australia, the United Kingdom, and the United States.
- How did female life expectancy at birth change between 2010 and 2015?
 - How did expenditure per person change between 2010 and 2015?
 - What conclusions do you draw from these data? *Life expectancy increased in all three countries. It increased most in Australia and least in the United States. Spending increased in all three countries. It increased the most in the United States. Spending in the United States increased more than twice as fast as spending in Australia or Canada.*
 - If you were the “manager” of the healthcare system in the United States, what would be a sensible response to data like this? *Managers should always try to copy rivals' best ideas, so a close look at what other countries are doing would be sensible.*

	Life Expectancy			Expenditure per Person		
	2010	2015	Change	2000	2010	Change
Australia	81.8	82.5	0.7	\$3,893	\$4,493	\$600
United Kingdom	80.6	81.0	0.4	\$3,281	\$4,125	\$844
United States	78.6	78.8	0.2	\$8,559	\$9,507	\$948

Note: Expenditure per person has been translated in \$US 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 than other countries on healthcare a problem? *More resources would be available for other goals.*
- What can Americans not buy due to high spending on healthcare? *Examples would include education (because of pressure on state budgets from Medicaid) or transportation (because of pressure on the federal budget from Medicaid).*
- What factors other than healthcare affect population health? *Nutrition, neighborhood safety, clean water, and many more affect health.*
- Does this evidence suggest that the American healthcare system is not efficient? *Spending more and getting poorer results does suggest inefficiency.*
- What are social determinants of health? *Social determinants of health are economic and social conditions that influence health. Among the social determinants of health are the quality and quantity of education a person gets, the quality and quantity of food, housing quality, and neighborhood safety.*

Case 1.2: Why Does the United States Spend So Much More?

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.

- *Why is the intensity of care higher in the United States? Several reasons have been advanced. The insurance system was designed to support hospitals' and specialists' incomes. And highly profitable (i.e., very expensive) procedures have been encouraged by high prices. The safety net has long been the emergency department, which is the most expensive source of ambulatory care. The shortage of primary care physicians also contributes to high intensity. Finally, for the most part, no one has clear incentives to monitor use of care.*

- *Should Medicare negotiate drug prices? One answer is that Medicare could almost certainly get better prices than pharmacy benefit managers (if Medicare had a formulary). Medicare would need to be willing to refuse to cover some drugs in order to be an effective negotiator. That's what the VA does.*

- *Why does the history of health insurance matter? Because it helped sustain high prices and because it encouraged the expansion of hospitals and specialists.*

- *How does obesity increase costs? It increases the risk of developing diabetes, heart disease, osteoarthritis, and many other conditions.*

Activity 1.1: Looking Abroad

Go to the Commonwealth Foundation's [International Profiles of Health Care Systems](#) 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?

Unit 1: Why Health Economics?

Read: Chapter 1

Learning Objectives

After mastering this unit students will be able to:

- Explain the course objectives
- Identify the class's topics, deliverables, and due dates
- Describe the value of economics for managers
- Identify major challenges for healthcare managers
- Find current information about health outcomes
- Distinguish between positive and normative economics

Key Concepts

- Economics helps managers focus on key issues.
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- Economics gives managers a framework for understanding market demand.
- Economics gives managers a framework for assessing profitability.

Potential Activities

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

(Suggestions are in the Guide.)

Discussion of Case 1.2: Why Does the United States Spend So Much More?

Activity 1.1: Syllabus Scavenger Hunt (Suggestions are in the Guide)

Activity 1.2: Icebreakers (Suggestions are in the Guide.)

Activity 1.3: Looking Abroad

Exercises (Answers are in the Guide)

Chapter 1 Lecture (See Instructor Resources. This may be posted online.)

Syllabus Quiz