

CONTENTS

	PREFACE	xxvii
	ACKNOWLEDGMENTS	xxxiii
CHAPTER 1	INTRODUCTION AND OVERVIEW	1
1.1	HEALTH ECONOMICS AS A FIELD OF INQUIRY	2
	THE IMPORTANCE OF HEALTH ECONOMICS	2
	THE GROWTH OF HEALTH ECONOMICS	3
1.2	FACTORS ACCOUNTING FOR THE GROWTH OF HEALTH ECONOMICS	5
	IMPROVEMENTS IN HEALTH AND LONGEVITY	5
	EXPANSION OF HEALTH SECTORS	8
1.3	IMPORTANT INSTITUTIONAL FEATURES OF HEALTH CARE	10
	HEALTH INSURANCE	11
	EXTERNALITIES AND GOVERNMENT INTERVENTION IN HEALTH CARE SERVICES PROVISION	13
	ASYMMETRIC INFORMATION BETWEEN CONSUMERS AND SUPPLIERS OF HEALTH CARE AND THE INSTITUTIONAL RESPONSES	15
1.4	GOVERNMENT INTERVENTION IN HEALTH CARE MARKETS	16
	GOVERNMENT'S ROLES IN ACHIEVING AN EQUITABLE DISTRIBUTION OF RESOURCES	17
	THE EQUITY-EFFICIENCY QUANDARY AND GOVERNMENT'S ROLE	18
	GOVERNMENT'S ROLE IN CORRECTING MARKET FAILURES	20
1.5	THE BOOK'S FOUR PARTS: A ROAD MAP	21
	STRUCTURE OF THE BOOK	21
	Part I Demand for Health, Health Care Services, and Insurance	22
	Part II Supply of Health Care Services and Insurance	24
	Part III Market Structure in the Health Care Sector	28
	Part IV Performance of the Health Care Sector: Positive and Normative Aspects	30
1.6	CONCLUSION	32
	KEY CONCEPTS	32
	REVIEW AND DISCUSSION QUESTIONS	32

	EXERCISES	33
	ONLINE SUPPLEMENTAL MATERIAL	34
	SUPPLEMENTAL READINGS	34
	REFERENCES	34
PART I	DEMAND FOR HEALTH, HEALTH CARE, AND INSURANCE	37
CHAPTER 2	HEALTH AND HEALTH BEHAVIORS	39
	2.1 RATIONALITY AND OTHER ECONOMIC ASSUMPTIONS	40
	2.2 HEALTH PRODUCTION FUNCTIONS	43
	THE CONCEPT	43
	HEALTH STOCKS AND FLOWS	44
	2.3 THE DEMAND FOR HEALTH: HEALTH AS A CAPITAL STOCK	44
	EVOLUTION OF A PERSON'S HEALTH OVER TIME	44
	DEMAND FOR HEALTH AND FOR MEDICAL CARE	46
	PREDICTIONS OF THE GROSSMAN MODEL	50
	A Reduction in the Price of Medical Care	50
	An Increase in the Individual's Wage Rate	51
	An Increase in the Individual's Age	51
	An Increase in the Individual's Educational Attainment	51
	2.4 MEASURING HEALTH CAPITAL	54
	MORTALITY	54
	QUALITY-OF-LIFE RATING SCALES	55
	QUALITY OF LIFE DERIVED FROM TRADE-OFF QUESTIONS	56
	2.5 ADDING UNCERTAINTY: DECISION TREES, BACKWARD INDUCTION, AND DECISION MAKING UNDER UNCERTAINTY	57
	A REALISTIC APPLICATION: A PEDIATRICIAN'S DECISION ABOUT ORDERING A THROAT CULTURE	58
	ERRORS IN DIAGNOSTIC TESTS	60
	2.6 CONSUMER CHOICES ABOUT HEALTH BEHAVIORS: A GENERAL FRAMEWORK	61
	UNHEALTHY BEHAVIORS	61
	THE CONCEPT OF PRESENT VALUE	62
	FUNDAMENTAL UNDERLYING ASSUMPTIONS	62
	Assumptions: Rational, Forward-Looking, and Time Consistency Described	62

	EX ANTE EXPECTATIONS AND DECISIONS, EX POST REALIZATIONS, AND REVISING EXPECTATIONS FROM LEARNING	64
	IS THE ECONOMIC FRAMEWORK OF HEALTH BEHAVIOR DECISION MAKING PLAUSIBLE?	65
	ECONOMIC EVIDENCE ON HEALTH BEHAVIORS AND PUBLIC POLICY IMPLICATIONS	66
2.7	FRONTIER ISSUES: THE BEHAVIORAL ECONOMICS CRITIQUE—THEORY AND EVIDENCE	67
2.8	SUMMARY AND CONCLUSIONS	69
	KEY CONCEPTS	70
	REVIEW AND DISCUSSION QUESTIONS	70
	EXERCISES	71
	ONLINE SUPPLEMENTAL MATERIAL	75
	SUPPLEMENTAL READINGS	76
2A	APPLICATION TO DECISION TO START AND STOP SMOKING	76
	REFERENCES	80
CHAPTER 3	DEMAND FOR HEALTH CARE SERVICES	83
3.1	BASIC ECONOMIC CONCEPTS OF DEMAND	85
3.2	DEMAND IN THE CONTEXT OF HEALTH INSURANCE COVERAGE	87
3.3	THE CONCEPT OF TIME PRICE	95
3.4	EMPIRICAL STUDIES OF DEMAND	97
	DATA USED IN DEMAND STUDIES	97
	Observational Data	97
	Randomized Controlled Trials	98
	Natural Experiments	99
	THE RAND HEALTH INSURANCE EXPERIMENT	100
	The Research Issues	100
	HIE Study Design	101
	HIE Results	102
	Effects of Deductibles	108
	COST SHARING: GREATER EFFECT ON DEMAND FOR LOW-INCOME THAN HIGH- INCOME FAMILIES?	108
	INCOME EFFECTS ON DEMAND FOR CARE	109
	EFFECTS OF CAPITATION ON USE OF SERVICES	111

	OTHER EMPIRICAL EVIDENCE ON THE EFFECT OF PRICE ON THE QUANTITY DEMANDED	113
	Empirical Evidence on the Effects of Health Insurance on Demand in a Low-Income Country	114
3.5	WELFARE ANALYSIS	115
3.6	OTHER DETERMINANTS OF DEMAND FOR PERSONAL HEALTH CARE SERVICES	118
3.7	SUMMARY AND CONCLUSIONS	119
	KEY CONCEPTS	120
	REVIEW AND DISCUSSION QUESTIONS	121
	EXERCISES	121
	ONLINE SUPPLEMENTAL MATERIAL	124
	SUPPLEMENTAL READINGS	125
	REFERENCES	125
CHAPTER 4	DEMAND FOR PRIVATE HEALTH INSURANCE	127
4.1	RELATIONSHIPS AMONG HEALTH, HEALTH INSURANCE, AND THE USE OF PERSONAL HEALTH CARE SERVICES	128
4.2	INSURANCE CONCEPTS AND TERMINOLOGY	130
	FIRST-PARTY AND THIRD-PARTY INSURANCE	130
	PECUNIARY AND NONPECUNIARY LOSS	131
	THE PRICE OF INSURANCE	131
4.3	DIMINISHING MARGINAL UTILITY OF WEALTH AND THE DEMAND FOR INSURANCE	133
	UTILITY OF WEALTH	133
	EXPECTED UTILITY	134
4.4	MODEL OF DEMAND FOR INSURANCE	136
	THE BASIC MODEL	136
	EFFECTS OF SHIFTS IN THE UTILITY FUNCTION, CHANGES IN Θ , AND IN CHANGES IN L ON THE DECISION TO PURCHASE INSURANCE	138
	Shifts in the Utility Function	138
	Change in Probability of Incurring a Loss (Becoming Sick)	139
	Change in the Magnitude of the Loss Conditional on a Loss (Becoming Sick)	139
	THE RISK-LOVER CASE	139
	IMPLICATIONS OF THEORY: DETERMINANTS OF DEMAND FOR INSURANCE	140
	THE PREMIUM OF A HEALTH INSURANCE POLICY	142

4.5	EMPIRICAL ISSUES	142
	WHY DO THE PROBABILITY AND MAGNITUDE OF THE LOSS VARY?	142
	WHY INCOME AFFECTS DEMAND FOR INSURANCE	143
4.6	HEALTH INSURANCE AND WELFARE: THE DEADWEIGHT LOSS OF EXCESS INSURANCE REVISITED	144
4.7	ROLE OF TAX SUBSIDIES IN DEMAND FOR HEALTH INSURANCE	145
4.8	ADVERSE SELECTION	147
	HOW ADVERSE SELECTION MAY ARISE IN HEALTH INSURANCE MARKETS	147
	ADVERSE SELECTION AND UNRAVELING IN INSURANCE MARKETS	150
	ADVERSE SELECTION AND UNRAVELING: THE CASE OF HARVARD UNIVERSITY	155
	EMPIRICAL EVIDENCE ON ADVERSE SELECTION IN PRIVATE HEALTH INSURANCE MARKETS	157
4.9	“RISK ADJUSTMENT” AND ADVERSE AND PREFERRED RISK SELECTION	161
4.10	SUMMARY AND CONCLUSIONS	162
	KEY CONCEPTS	163
	REVIEW AND DISCUSSION QUESTIONS	164
	EXERCISES	165
	ONLINE SUPPLEMENTAL MATERIAL	166
	SUPPLEMENTAL READINGS	166
	REFERENCES	167
PART II	SUPPLY OF HEALTH CARE SERVICES AND INSURANCE	169
CHAPTER 5	THE MARKET FOR PHYSICIANS’ SERVICES	171
5.1	MEDICAL SCHOOL CAPACITY AND CONCEPTS OF PHYSICIAN SHORTAGE AND SURPLUS	172
5.2	PHYSICIAN SUPPLY IN THE LONG RUN	174
	CHOICE OF MEDICINE AS A CAREER	174
	PHYSICIAN CHOICE OF SPECIALTY	178
	Concept of Present Value	179
	Concept of Internal rate of Return	180
	PHYSICIAN GEOGRAPHIC LOCATION DECISIONS	184
	THE ECONOMICS OF PHYSICIAN GROUP PRACTICE	185
	Economies of Scale and Scope	185
	Referrals	186

Coverage of Patients	186
Reduction in Earnings Fluctuations	186
Empirical Evidence	187
5.3 PHYSICIANS' SHORT-RUN DECISIONS	188
OVERVIEW	188
RECONCILING STYLIZED FACTS OF THE PHYSICIANS' SERVICES MARKET WITH STANDARD ECONOMIC MODELS	192
Why the Demand Curve Facing the Individual Physician May Be Downward Sloping	192
WHY ARE PHYSICIANS' FEES OFTEN HIGHER IN MARKETS WITH MORE PHYSICIANS?	193
Practice Input Price Differences	193
The Pauly-Satterthwaite Model	195
The Quality-Amenities Model	195
Summing Up	196
RECONCILING STYLIZED FACTS OF THE PHYSICIANS' SERVICES MARKET WITH STANDARD ECONOMIC MODELS: FEES SET ADMINISTRATIVELY	197
Quantity Increases with Administered Price Decreases	197
Backward-Bending Supply Curve of Physicians	197
Other Empirical Evidence on the Effects of Administered Price Reductions on Volume of Physician Services	199
Summing Up	199
RECONCILING STYLIZED FACTS OF THE PHYSICIANS' SERVICES MARKET: OTHER MODELS	200
Target Income and Supplier-Induced Demand	200
Empirical Findings on TI and PID	202
Public Policy Implications If PID Is Supported by Empirical Evidence	203
5.4 PRICE DISCRIMINATION	204
BACKGROUND	204
THEORY	205
Empirical Evidence	208
5.5 SUMMARY AND CONCLUSIONS	210
KEY CONCEPTS	211
REVIEW AND DISCUSSION QUESTIONS	211

EXERCISES	213
ONLINE SUPPLEMENTAL MATERIAL	216
SUPPLEMENTAL READINGS	216
REFERENCES	216
CHAPTER 6 HOSPITALS	219
6.1 CONTEXT	220
6.2 ALTERNATIVE MODELS OF HOSPITAL BEHAVIOR	221
THE PROFIT-MAXIMIZING HOSPITAL: THE BASE CASE	221
A MODEL OF A PRIVATE NOT-FOR-PROFIT HOSPITAL	224
The Model's Basics	224
Effects of Exogenous Changes in Wage Rates, Population Size, Fraction of Persons with Health Insurance Coverage, and Subsidies of Hospitals	228
THE PAULY-REDISCH MODEL OF THE NOT-FOR-PROFIT HOSPITAL AS A PHYSICIANS' COOPERATIVE	228
PHYSICIAN-HOSPITAL ORGANIZATIONS	236
SUMMING UP	237
6.3 HOSPITAL OWNERSHIP AND PERFORMANCE	238
WHY ARE FOR-PROFIT HOSPITALS A MINORITY?	238
Fiduciary Relationships and Complex Output	238
Noncontractible Quality	239
Public Goods	240
Implicit Subsidies	240
Explicit Subsidies	241
Cartels	241
Low Profits	241
EMPIRICAL EVIDENCE ON HOSPITAL OWNERSHIP AND PERFORMANCE	241
Allegations against For-Profit Hospitals	241
Empirical Analysis of the Effects of Ownership on Hospital Performance	243
Reviews of the Literature on the Effects of Ownership on Hospital Performance	244
6.4 REGULATION OF HOSPITALS	245
CONTEXT	245
RETROSPECTIVE COST REIMBURSEMENT	247

	REGULATORY RESPONSES	249
	Entry Regulation	250
	Price-Revenue Regulation and Prospective Payment	254
6.5	AN ALTERNATIVE TO REGULATING HOSPITALS: INCREASING COMPETITION AMONG HOSPITALS	259
	DESCRIPTION	259
	EMPIRICAL EVIDENCE ON THE EFFECTS OF COMPETITION UNDER THE NEW REGIME	260
	EMPIRICAL EVIDENCE ON THE EFFECTS OF INCREASED COMPETITION ON HOSPITAL QUALITY	263
6.6	SUMMARY AND CONCLUSIONS	264
	KEY CONCEPTS	265
	REVIEW AND DISCUSSION QUESTIONS	265
	EXERCISES	266
	ONLINE SUPPLEMENTAL MATERIAL	269
	SUPPLEMENTAL READINGS	270
	REFERENCES	270
CHAPTER 7	QUALITY OF CARE AND MEDICAL MALPRACTICE	275
7.1	MARKETS AND MARKET FAILURE	275
7.2	CHARACTERISTICS OF HEALTH CARE QUALITY	279
	HOW ECONOMISTS VIEW QUALITY	279
	HOW THE QUALITY OF PERSONAL HEALTH CARE SERVICES IS MEASURED	280
7.3	ADVERSE EVENTS AND NEGLIGENT INJURIES	283
	THE ISSUES	283
	HOW THE ESTIMATES OF ADVERSE OUTCOMES WERE GENERATED	283
	THE QUALITY OF THE ESTIMATES	284
	DO OBSERVED RATES OF MEDICAL ERRORS AND ADVERSE OUTCOMES REPRESENT A MARKET FAILURE JUSTIFYING GOVERNMENT OR OTHER INTERVENTION?	285
7.4	SUPPLY-SIDE QUALITY-OF-CARE SAFEGUARDS AND GOVERNMENT OVERSIGHT AND REGULATION	286
	OVERVIEW	286
	PROFESSIONAL NORMS	286
	PEER REVIEW	287

	LICENSURE	287
	CERTIFICATION	288
7.5	MANDATORY ERROR REPORTING	288
	DESCRIPTION	288
	IMPLICATIONS	290
7.6	TORT LAW AS A MECHANISM FOR IMPROVING PATIENT SAFETY AND HEALTH CARE QUALITY	291
	WHY OTHER QUALITY ASSURANCE MECHANISMS MAY FAIL	291
	THE ABCs OF TORT LAW	292
	Tort Law Defined	292
	The Socially Optimal Injury Rate	293
	The Negligence Rule: Only One of Several Alternative Liability Rules	295
	Contracts versus Torts	296
	WHEN THE NEGLIGENCE RULE LEADS PRIVATE PARTIES TO SELECT A SOCIALLY OPTIMAL PRECAUTION LEVEL	298
	TORT LIABILITY UNDER ATTACK	298
7.7	MEDICAL MALPRACTICE	299
	OVERVIEW	299
	MEDICAL CARE MARKET	300
	LEGAL MARKET	302
7.8	DOES THE THREAT OF MEDICAL MALPRACTICE SUITS DETER IATROGENIC INJURIES?	303
7.9	SUMMARY AND CONCLUSIONS	308
	KEY CONCEPTS	309
	REVIEW AND DISCUSSION QUESTIONS	309
	EXERCISES	310
	ONLINE SUPPLEMENTAL MATERIAL	312
	SUPPLEMENTAL READINGS	313
	REFERENCES	314
CHAPTER 8	NURSES IN HOSPITAL AND LONG-TERM CARE SERVICE	319
8.1	LABOR MARKETS FOR NURSES WORLDWIDE	320
8.2	SUPPLY OF NURSES: TOO MANY OR TOO FEW?	325
	ECONOMIC CONCEPTS OF SURPLUS AND SHORTAGE	325

	ROLE OF PUBLIC REGULATION	329
	ROLE OF MONOPSONY POWER	334
8.3	EMPIRICAL ESTIMATES OF NURSES' RESPONSE TO A WAGE CHANGE	338
8.4	NONWAGE DETERMINANTS OF THE NURSE LABOR SUPPLY	343
8.5	NURSES IN THE PRODUCTION OF HOSPITAL SERVICES	344
	DO HIGHER NURSE-TO-PATIENT RATIOS IMPROVE THE QUALITY OF HOSPITAL CARE?	344
	PUBLIC POLICY RESPONSES	349
8.6	NURSES IN THE PRODUCTION OF NURSING HOME SERVICES	352
	OVERVIEW	352
	EFFECTS OF ECONOMIC FACTORS ON NURSE STAFFING AND MIX	353
	EFFECTS OF NURSE STAFFING LEVELS AND MIX ON PATIENT OUTCOMES	355
	IMPLICATIONS FOR PUBLIC POLICY	355
8.7	SUMMARY AND CONCLUSIONS	357
	KEY CONCEPTS	358
	REVIEW AND DISCUSSION QUESTIONS	358
	EXERCISES	359
	ONLINE SUPPLEMENTAL MATERIAL	362
	SUPPLEMENTAL READINGS	362
	REFERENCES	363
CHAPTER 9	PHARMACEUTICAL MANUFACTURERS	367
9.1	COMPANIES' DECISIONS ABOUT INVESTMENTS IN R&D	368
	BASIC FACTS OF THE PHARMACEUTICAL R&D PROCESS	368
	THE OPTIMAL INVESTMENT DECISION FROM A PHARMACEUTICAL COMPANY'S VANTAGE POINT	370
	INCENTIVES FOR PHARMACEUTICAL INNOVATION	371
	Pull Incentives	371
	Push Incentives	372
	Combination of Pull and Push Incentives	375
	DISINCENTIVES FOR PHARMACEUTICAL INNOVATION	376
9.2	PRICING OF NEW DRUGS	379
	RATIONALE FOR PATENTS AND PUBLIC POLICY TRADE-OFFS	379
	PRICING NEW DRUGS: EMPIRICAL EVIDENCE	382

9.3	ENTRY OF GENERIC DRUGS AND ITS CONSEQUENCES	384
	COMPETITION BETWEEN GENERIC AND BRAND-NAME DRUGS	384
	FACTORS AFFECTING GENERIC COMPETITION	386
	CONSEQUENCES OF GENERIC COMPETITION	388
9.4	ADVERTISING	389
	COMPANIES' INCENTIVES TO ALLOCATE FUNDS TO MARKETING	390
	COMPOSITION OF PHARMACEUTICAL COMPANY MARKETING	392
	DETAILING AND ITS EFFECTS	393
	DIRECT-TO-CONSUMER ADVERTISING AND ITS EFFECTS	393
9.5	INTERNATIONAL PRICING	394
	CROSS-NATIONAL PRICE DIFFERENTIALS	394
	THE CONSEQUENCES OF DIFFERENTIAL PRICING	396
	RAMSEY OPTIMAL PRICING	398
	EMPIRICAL EVIDENCE ON RAMSEY PRICING OF PHARMACEUTICALS	399
9.6	DEVELOPING NEW DRUGS: RARE DISEASES AND DISEASES PREVALENT IN LOW-INCOME COUNTRIES	401
	REWARDS AS A SUBSTITUTE FOR PATENTS: OVERVIEW	401
	SPECIFIC PROPOSALS	403
	Advance Purchase Commitments	403
	Optional Rewards Based on Therapeutic Effect	404
	Priority Review Voucher	406
9.7	SUMMARY AND CONCLUSIONS	406
	KEY CONCEPTS	408
	REVIEW AND DISCUSSION QUESTIONS	408
	EXERCISES	410
	ONLINE SUPPLEMENTAL MATERIAL	412
	SUPPLEMENTAL READINGS	412
	REFERENCES	413
CHAPTER 10	THE SUPPLY OF PRIVATE HEALTH INSURANCE	417
10.1	THE ABCS OF THE BUSINESS OF INSURANCE	418
	FUNCTIONS OF INSURERS	418
	Risk Bearing	418
	Marketing and Underwriting	419

Claims Processing	420
Loss Prevention	421
MEASURING THE FINANCIAL STRENGTH OF INSURERS: AN INSURER'S INCOME STATEMENT AND BALANCE SHEET	421
Income Statement	421
Balance Sheet	422
INSURERS' CASH FLOW, INCOME FROM INVESTMENTS, AND PREMIUM SETTING	422
Timing of Insurers' Revenue and Expenses	422
Investment Income	423
Higher Investment Income Leads to Lower Premiums on the Underwriting Side of an Insurer's Business	423
REINSURANCE	424
UNDERWRITING CYCLES	425
10.2 ARE INSURERS' PREMIUMS AND RETURNS EXCESSIVE?	425
10.3 PRIVATE VERSUS PUBLIC PROVISION OF HEALTH INSURANCE COVERAGE	427
THE CASE FOR AND AGAINST RELYING ON PRIVATE HEALTH INSURANCE FOR PROVISION OF COVERAGE TO A POPULATION	429
10.4 EMPLOYER-BASED PRIVATE HEALTH INSURANCE COVERAGE	432
ADVANTAGES OF EMPLOYER-BASED COVERAGE	432
WHO REALLY PAYS FOR EMPLOYER-BASED HEALTH INSURANCE COVERAGE?	434
10.5 GOVERNMENT REGULATION OF PRIVATE HEALTH INSURANCE	437
RATIONALE FOR GOVERNMENT REGULATION	437
INSURANCE MANDATES: A FORM OF PRIVATE REGULATION OF PRIVATE HEALTH INSURANCE	439
COMMUNITY RATING	443
MANAGED CARE DEFINED	445
THE EFFECT OF MANAGED CARE ON MARKET STRUCTURE AND PROVIDERS' AND PATIENTS' INCENTIVES	448
MANAGED CARE AND HEALTH SYSTEM PERFORMANCE	451
Overview	451
Effects of Managed Care on Spending on Personal Health Care	451
Effects of Managed Care on Diffusion of Technology	453
THE BACKLASH AGAINST MANAGED CARE	456
PRIVATE HEALTH INSURANCE AND UNIVERSAL HEALTH INSURANCE COVERAGE	456

10.6	SUMMARY AND CONCLUSIONS	457
	KEY CONCEPTS	459
	REVIEW AND DISCUSSION QUESTIONS	459
	EXERCISES	460
	ONLINE SUPPLEMENTAL READING	462
	SUPPLEMENTAL READINGS	462
	REFERENCES	463
PART III	MARKET STRUCTURE IN THE HEALTH CARE SECTOR	467
CHAPTER 11	PRIVATE FINANCING OF HEALTH CARE SERVICES	469
11.1	RATIONALE FOR HEALTH SYSTEMS ANALYSIS	470
11.2	CLASSIFICATION OF HEALTH CARE SYSTEMS	474
11.3	CASH SYSTEMS	484
	OVERVIEW	484
	THE INDIAN HEALTH CARE SYSTEM	485
	THE CHINESE HEALTH CARE SYSTEM	486
11.4	THE PRIVATE SYSTEM: THE US EXPERIENCE	491
	BASE CASE: PRIVATE PROVISION AND NO INSURANCE COVERAGE	491
	EVOLUTION OF PRIVATE HEALTH INSURANCE IN THE 1930S AND 1940S	491
11.5	THE MANAGED COMPETITION MODEL	491
11.6	COMPARISONS BETWEEN SINGLE- AND MULTIPLE-PAYER SYSTEMS	494
	COST SHIFTING	494
	PATIENT SELECTION	495
	SPILLOVER EFFECTS	496
11.7	SUMMARY AND CONCLUSIONS	496
	KEY CONCEPTS	498
	REVIEW AND DISCUSSION QUESTIONS	498
	EXERCISES	498
	ONLINE SUPPLEMENTAL READINGS	500
	SUPPLEMENTAL READINGS	500
	REFERENCES	501

CHAPTER 12	GOVERNMENT FINANCING AND PRIVATE SUPPLY	503
12.1	THE ROLE OF GOVERNMENT AS A PAYER: RATIONALE FOR THE PUBLIC PROVISION OF HEALTH INSURANCE	504
	UNIVERSAL COVERAGE, SOCIAL INSURANCE, AND MEANS-TESTED INSURANCE	504
	ARGUMENTS OF ADVOCATES FOR THE PUBLIC PROVISION OF HEALTH INSURANCE	505
	CHOICES IN THE DESIGN OF PUBLIC PAYMENT SYSTEMS	508
12.2	EVOLUTION AND STRUCTURE OF THE PAYMENT SYSTEM: GERMAN STATUTORY HEALTH INSURANCE	514
12.3	EVOLUTION AND STRUCTURE OF THE PAYMENT SYSTEM: THE US MEDICARE PROGRAM	516
	BACKGROUND	516
	HOSPITAL PAYMENT UNDER MEDICARE: THE MEDICARE PROSPECTIVE PAYMENT SYSTEM	519
	PHYSICIAN PAYMENT UNDER MEDICARE: FIXED FEES BASED ON A RESOURCE-BASED RELATIVE VALUE SCALE	522
	EFFECTS OF MEDICARE	524
	Technological Change	524
	Population Subgroups	525
	Population Health	526
12.4	EVOLUTION OF PAYMENT SYSTEMS: THE US MEDICAID PROGRAM	528
	BACKGROUND	528
	CHOICE OF MEDICAID BENEFITS VERSUS SELF-INSURANCE VERSUS PRIVATE INSURANCE	528
	EMPIRICAL EVIDENCE ON MEDICAID FEE SCHEDULE	532
	MEDICAID AND NURSING HOME CARE	533
12.5	EVOLUTION OF PAYMENT SYSTEMS: CANADA'S MEDICARE	534
	BACKGROUND	534
	EFFECTS OF THE CANADIAN MEDICARE PROGRAM	535
	Patient Waiting Time to Receipt of Care	535
	Use of Costly Procedures	536
	Disparities in Health and in the Use of Services	536
12.6	EVOLUTION OF PAYMENT SYSTEMS IN ASIAN COUNTRIES ON THE PACIFIC RIM	536
	BACKGROUND	536
	JAPAN	537

	SOUTH KOREA	539
	TAIWAN	540
	EFFECTS OF UNIVERSAL HEALTH INSURANCE	542
12.7	THE PUBLIC HEALTH INSURANCE PROGRAM IN RURAL CHINA	545
	BACKGROUND	545
	EFFECTS OF THE NCMS	546
12.8	DISCUSSION AND CONCLUSIONS	549
	KEY CONCEPTS	551
	REVIEW AND DISCUSSION QUESTIONS	551
	EXERCISES	553
	ONLINE SUPPLEMENTAL MATERIAL	556
	SUPPLEMENTAL READINGS	557
	REFERENCES	557
CHAPTER 13	PUBLIC SUPPLY AND FINANCING	563
13.1	THE RATIONALE FOR PUBLIC PROVISION OF HEALTH CARE	564
	THE ROLE OF TRANSACTION COSTS	564
	NONCONTRACTIBLE OUTCOMES REVISITED	565
	REDISTRIBUTIVE CONCERNS	569
13.2	PUBLIC PROVISION IN HIGH-INCOME COUNTRIES IN PRACTICE	572
	THE UNITED KINGDOM'S NATIONAL HEALTH SERVICE	572
	Overview	572
	Rationing by Queues Rather Than by Prices	573
	Non-price Rationing: Pros and Cons	574
	Empirical Evidence on the Costs of Waiting Lists	579
	The NHS Internal Market	583
	AUSTRALIA	585
	Overview	585
	Empirical Evidence	586
13.3	PUBLIC PROVISION OF PERSONAL HEALTH CARE SERVICES IN OTHER COUNTRIES	587
	HIGH-INCOME COUNTRIES	587
	MIDDLE- AND LOW-INCOME COUNTRIES	587
	Dominance of Public Ownership Form	587

	Evidence on Quality of Care	588
	Public Policy Options for Improving Quality of Care	590
	Empirical Evidence on Effects of Interventions to Improve Quality of Care	591
13.4	EVALUATION AND COMPARISON OF HEALTH CARE SYSTEMS	593
	COMPARISONS BASED ON INTERMEDIATE PERFORMANCE MEASURES	593
	Access	593
	Cost	595
	Quality	599
	COMPARISONS BASED ON TWO PERFORMANCE GOALS	600
	Efficiency	600
	Equity	601
13.5	SUMMARY	603
	KEY CONCEPTS	605
	REVIEW AND DISCUSSION QUESTIONS	605
	EXERCISES	606
	ONLINE SUPPLEMENTAL MATERIAL	608
	SUPPLEMENTAL READINGS	609
	REFERENCES	610
PART IV	PERFORMANCE OF THE HEALTH CARE SECTOR: POSITIVE AND NORMATIVE ASPECTS	615
CHAPTER 14	COST AND COST-EFFECTIVENESS ANALYSIS	617
14.1	OVERVIEW OF COST-EFFECTIVENESS AND COST-BENEFIT ANALYSIS	618
14.2	COST-EFFECTIVENESS ANALYSIS: MEASURING COST	622
	OVERVIEW	622
	CONCEPT OF OPPORTUNITY COST	622
	DIRECT AND INDIRECT COSTS	623
	OTHER COST CONCEPTS	624
	Transfer Costs	624
	Future Costs	624
	Sunk versus Incremental Costs	625
	Joint Costs/Joint Production	625
	COST FROM ALTERNATIVE PERSPECTIVES	626

14.3	COST-EFFECTIVENESS ANALYSIS: MEASURING EFFECTIVENESS	627
	EFFECTIVENESS VERSUS EFFICACY	627
	ENDPOINTS	628
	EVALUATING THE MARGINAL EFFECT OF SPECIFIC TECHNOLOGIES	632
	Goal of Evaluation	632
	Transition Probabilities	633
	Markov Chains	633
	Obtaining Transition Probabilities from Observational Data	634
	DISCOUNTING	636
	Rationale for Discounting	636
	DETERMINING THE APPROPRIATE DISCOUNT RATE: FINANCIAL VERSUS HEALTH DISCOUNT RATES	637
	COMPUTING A COST-EFFECTIVENESS RATIO	639
14.4	APPLICATIONS OF COST-EFFECTIVENESS ANALYSIS	640
	DISEASE PREVENTION	640
	THE EXPERIENCE OF A US STATE, OREGON	640
	COST-EFFECTIVENESS OF THROMBOLYTIC THERAPY FOR ACUTE MYOCARDIAL INFARCTION	641
	COST-EFFECTIVENESS OF HIV TREATMENT IN LOW-INCOME SETTINGS	643
	COST-EFFECTIVENESS OF SCREENING FOR CERVICAL CANCER IN LOW-INCOME SETTINGS	648
14.5	USE OF ECONOMIC EVALUATION IN PRACTICE: CONCLUSIONS AND IMPLICATIONS	650
	KEY CONCEPTS	652
	REVIEW AND DISCUSSION QUESTIONS	652
	EXERCISES	653
	ONLINE SUPPLEMENTAL MATERIAL	654
	SUPPLEMENTAL READINGS	655
	REFERENCES	655
CHAPTER 15	MEASURING BENEFITS AND COST-BENEFIT ANALYSIS	657
15.1	MEASURING BENEFITS IN COST-BENEFIT ANALYSIS: A REVIEW	658
15.2	THE REVEALED PREFERENCE APPROACH	660
	OBJECTIVE	660
	UNDERLYING ASSUMPTIONS	661

EVIDENCE FROM LABOR MARKETS	661
VALUE OF A STATISTICAL LIFE	665
AN APPLICATION OF THE REVEALED PREFERENCE APPROACH: CIGARETTE SMOKERS AS JOB RISK TAKERS	666
15.3 THE STATED PREFERENCE APPROACH	669
CONTINGENT VALUATION	669
Stated Choice or Attribute-Based Methods	671
Contingent Behavior or Contingent Activity Questions	671
Assessing the Validity of Stated Preference Measures	671
STATED PREFERENCE METHOD APPLICATION 1	672
STATED PREFERENCE METHOD APPLICATION 2	674
Theory: Risk-Dollar Trade-offs	674
Theory: Risk-Risk Trade-offs	675
Surveys of WTP to Avoid Intangible Loss of Multiple Sclerosis	675
Results	677
Implications	678
STATED PREFERENCE APPLICATION 3: BENEFITS AND COSTS OF CHOLERA VACCINATION	679
Background and Study Rationale	679
Program Benefit and Cost	679
Measuring Private Benefit to the Vaccinated	680
Use of Stated Preference Method to Measure Vaccine Demand	680
MEASURING PRIVATE BENEFIT TO THE UNVACCINATED	681
MEASURING SAVINGS IN PUBLIC HEALTH EXPENDITURES ATTRIBUTABLE TO THE VACCINE PROGRAM	682
SOME KEY FINDINGS	682
15.4 USE OF COST-BENEFIT AND COST-EFFECTIVENESS ANALYSIS IN PUBLIC DECISION MAKING	683
15.5 CONCLUSIONS	686
KEY CONCEPTS	686
REVIEW AND DISCUSSION QUESTIONS	687
EXERCISES	688
ONLINE SUPPLEMENTAL MATERIAL	689

	SUPPLEMENTAL READINGS	690
	REFERENCES	690
CHAPTER 16	THE CONTRIBUTION OF PERSONAL HEALTH SERVICES TO LONGEVITY, POPULATION HEALTH, AND ECONOMIC GROWTH	693
	16.1 THE LINK BETWEEN HEALTH AND ECONOMIC SECTORS	694
	OVERVIEW	694
	THE RELATIONSHIP BETWEEN IMPROVED HEALTH AND LONGEVITY AND ECONOMIC GROWTH	697
	16.2 EFFECTS OF HEALTH CARE FINANCING ON NATIONAL ECONOMIES	698
	SAVINGS BEHAVIOR	698
	LABOR MARKET OUTCOMES	699
	WELFARE LOSS OF TAXATION	701
	16.3 SECULAR TRENDS IN DETERMINANTS OF HEALTH INPUTS AND OUTPUTS	704
	SECULAR TRENDS IN EXPENDITURES ON PERSONAL HEALTH CARE SERVICES	704
	DETERMINANTS OF PERSONAL HEALTH CARE EXPENDITURES	706
	SECULAR TRENDS IN HEALTH OUTCOMES	709
	DETERMINANTS OF MORTALITY	709
	16.4 CONTRIBUTIONS OF PERSONAL HEALTH CARE SERVICES TO IMPROVED POPULATION HEALTH	710
	CONCEPTUAL FRAMEWORK	710
	EMPIRICAL EVIDENCE FROM CROSS-SECTIONAL STUDIES	712
	OVERVIEW OF ANALYTIC APPROACHES	715
	THE DISEASE APPROACH	715
	THE PROXY VARIABLE APPROACH	717
	THE ACCOUNTING METHOD	719
	16.5 CONTRIBUTION OF IMPROVED HEALTH TO ECONOMIC GROWTH	720
	DIRECT EFFECT ON PRODUCTIVITY	720
	INDIRECT EFFECTS OPERATING THROUGH FERTILITY, EDUCATION, AND SAVING	721
	OTHER INDIRECT EFFECTS	723
	CONTESTED ISSUES	723
	16.6 THE HEALTH SECTOR AS A JOB MACHINE	725
	16.7 ECONOMIC GROWTH AND DISEASE PATTERNS	726

16.8	SUMMARY AND CONCLUSIONS	728
	KEY CONCEPTS	729
	REVIEW AND DISCUSSION QUESTIONS	729
	EXERCISES	731
	ONLINE SUPPLEMENTAL MATERIAL	732
	SUPPLEMENTAL READINGS	732
	REFERENCES	732
CHAPTER 17	FRONTIERS OF HEALTH ECONOMICS	737
17.1	RATIONAL VERSUS IRRATIONAL DECISION MAKING IN HEALTH CARE	737
17.2	INFORMATION, ASYMMETRIC INFORMATION, AND ITS EFFECTS	740
	HOW PEOPLE OBTAIN INFORMATION	740
17.3	INDUSTRIAL ORGANIZATION OF THE HEALTH CARE SECTOR	743
	PRINCIPAL-AGENT ISSUES: PHYSICIANS	743
	PAY FOR PERFORMANCE	744
	COMPETITION AMONG HOSPITALS	745
17.4	COMPETITION VERSUS PUBLIC REGULATION VERSUS PUBLIC OWNERSHIP IN HEALTH CARE	746
17.5	CLINICAL DECISION MAKING	747
17.6	FINAL WORD	748
	KEY CONCEPTS	749
	REVIEW AND DISCUSSION QUESTIONS	749
	SUPPLEMENTAL READINGS	750
	REFERENCES	750
	INDEX	753