

# PREFACE

Health economics is a growing research field. The number of textbooks in this field has increased as well. Although there are many choices, it is difficult to find a textbook that exactly fits the needs of a particular class of students—who themselves are highly diverse. Health economics is a field within the more general field of applied microeconomics. But unlike other microeconomic applications, such as public economics, labor economics, and industrial organization, health economics is widely taught outside economics departments, such as in schools of public health (e.g., in hospital administration programs), public policy, business, nursing, pharmacy, and medicine. Moreover, the number of university-based programs in global health has exploded in recent years.

In these programs taught outside economics departments, the demand for health economics stems much more from an inherent interest in health care than from a primary interest in economics. Yet an understanding of economics as applied to health care can be very important to the development of such students' careers and for understanding the workings of health care markets more generally. One of our students recently told us that before taking a course in health economics she had believed, as she was told, that pharmaceutical companies were “bad” for not developing drugs needed by people in low-income countries. After taking the course, she better understood the constraints under which such companies operate, the incentives they face, and proposed public policy solutions for encouraging research and development of drugs for diseases that are highly prevalent in low-income countries—material addressed in this book.

Students have access to lengthy descriptions of health systems from other sources. What is needed—and what we set ourselves to provide—is a book combining economic concepts with empirical evidence to enhance the reader's understanding of how health care institutions and markets function.

This book's goal is to present theoretical and empirical findings as they pertain to decisions individuals make about their health and health care and choices the suppliers of health care services make. It is also intended to serve as a guide for government decision making about resource allocation and policy in the health sector. The theoretical and empirical approaches discussed in this book draw heavily on the more general field of applied microeconomics. At the same time, no analysis of health economics is complete without a description and analysis of important institutional features of health sectors in countries around the world. These institutional features encompass both financing and the provision of personal health care services.

This book makes at least three innovative contributions. First, reflecting the increased interest in global health, we take a global view in the sense that our

analysis is not country-specific (i.e., largely focused on the United States) but applies to countries all over the world. Where other books might offer a chapter on international health systems, this book presents far more on global health, yet simultaneously has a substantial amount of empirical evidence on health care services and markets in the United States. Having authors from two distinct parts of the world has helped with the global perspective, for the issues addressed in this book often apply to every country. For example, individuals in every country make similar important decisions about their careers, including whether or not to become a physician, how to select a physician specialty, and the choice of practice location and type of practice. Similarly, pharmaceutical manufacturers in many countries face the same decisions about whether or not to invest in new products and how to set the price and promote these new products.

Second, while health economics has been, in our view appropriately, regarded as a topic in applied microeconomics, this book also takes a macroeconomic perspective. One chapter describes how the health sector operates from the perspective of the macroeconomy. Thus, the book is organized sequentially in a way that has been widely used in economics, beginning with the individual and firm level, then shifting to the market level, and finally moving to a macroeconomic level that views the economy as a whole and considers the role of health and health care within the macroeconomy.

Quality of care has traditionally been viewed as the exclusive domain of medical experts. In the last decade or so, experts from other disciplines have become actively involved in research on health care quality. Economists have joined in such analysis, too. After all, enterprises in all sectors make decisions about levels of quality to offer, just as we all do as consumers. Further, consumer ignorance about quality is a source of market power. We economists are interested in ways to make markets, including health care markets, more transparent. Chapter 7 deals specifically with health care quality.

This book includes three chapters on health systems (chapters 11–13), providing an analysis brand new to this field. In addition, chapter 16 provides an overview of the link between health and economic sectors, also a new contribution. This chapter should interest public policy makers and health industry leaders, as well as college and university students.

Third, this book takes a comprehensive view in the sense that it includes detailed discussions of health and health behaviors as well as health care, nurses as well as physicians, nonlabor inputs in the production of health (i.e., pharmaceuticals) as well as labor-intensive hospitals and physicians' services, and macro as well as microanalysis.

The book's comprehensiveness can be seen in three other dimensions: space, time, and methods. On the space dimension, this book takes a global perspective. We discuss the role of the consumer in the health sector not only by focusing on demand for personal health care services (chapter 3) but also by focusing on the

demand for health behavior (chapter 2) and health insurance (chapter 4). Similarly, our discussion of the supply side of the health care market draws in all major players, including physicians (chapters 5 and 7), hospitals (chapters 6 and 7, which mainly focus on quality of care), nurses (chapter 8), pharmaceutical manufacturers (chapter 9), and private insurers (chapter 10). The discussion of health care systems extends to all possible systems in the world (chapters 11–13).

In addition to the positive economics, which aims to explain why behaviors are observed (what is), we also include two chapters (chapters 14 and 15) on normative economics, methodologies used for making recommendations about policies that should be adopted (what ought to be). We then extend our analysis to the macroeconomics of the health sector (chapter 16) and the future development of the field of health economics (chapter 17).

With regard to the time dimension, we include discussions of some classics in health economics, but we also introduce some of the newest material in the field. Examples of classics are Arrow (1963), Newhouse (1970), Grossman (1972), Pauly and Redisch (1973), Rothschild and Stiglitz (1976), and Manning, Newhouse, Duan, et al. (1987). Although these works were published well before student readers' births and even most professors' births, they raised important issues in the health economics field that have greatly influenced other work and remain highly relevant today. Also, Sloan's long-standing interest in the supply of health care is reflected in the chapters on the supply, organization, and financing of personal health care services.

With regard to analytic methods, we have made a substantial effort to close the gaps among conceptual analysis, empirical evidence, and the institutional features of the health sector. You as readers will be the judges how successful we have been in this respect.

Much of the conceptual analysis reviews and extends material economics majors will have learned in other economics courses. Empirical research is often regarded by students as a bitter pill. "Why do I have to learn the details of studies?" The answer is that you will not need to know the details of specific studies later in life. However, having analytic skills, being able to critically evaluate empirical material, summarize it in capsule form, and draw policy recommendations (private and public) from it, is very important for later life.

Students and professors in economics department often perceive the complex institutional features of the health sector as barriers to entry into this field. By contrast, the theoretical reasoning of economics often is a barrier to students who do not major in economics. This book attempts to reduce these important barriers to entry. It explains some of the complex institutions and provides references for readers who want to learn more. The book presents a theoretical background for non-economics majors that is also designed to serve as a review for majors. One role of applied economics courses is to reinforce concepts introduced in theory courses.

Given the broad potential readership, the book is designed for use by students in undergraduate economic programs, as well by students in various undergraduate and graduate professional programs who have taken few or no prior courses in economics. The book contains many graphs and tables; the use of calculus is minimized.

Overall, this book is designed for a one-semester course in health economics with no economics prerequisites. However, if it is supplemented by readings from other sources, it will be more appropriate for a year-long course. One way to divide the course is on the basis of the traditional paradigm of demand and supply. The book is a bit imbalanced in favor of supply, but there are many more journal articles on demand, especially on demand globally.

For students with an economics background, this book should enhance an understanding of how economic analysis can be applied to various settings in the real world. In the United States, which is a large and extreme case, the health sector now occupies one-sixth of gross domestic product. Other high-income countries are also experiencing substantial relative growth in their health sectors, though at a lower percentage of GDP. Middle-income and some low-income countries have this to look forward to. Professors can use this book to teach applications of economic concepts rather than dwell on minute details of the US health care system or the systems in other countries.

For students in other fields of concentration, this book can be used in various settings to introduce economics concepts as they apply to health and health care and to read up-to-date summaries of research findings and issues in health economics without spending substantial effort on learning the basic tools of economic analysis or having to skip learning some highly relevant concepts altogether.

Reflecting that health economics began in the United States more than half a century ago, much of the material in this book is based on US studies. However, in recent years an increasing share of health economics studies has come from other countries. As communications technology has improved, global awareness of issues particular to middle- and low-income countries has increased, as has research on health care issues specific to these countries. Although constrained by what remains a relative lack of studies using data from these countries, this book incorporates much of the health economics research from low- and middle-income countries that currently exists. We hope that publication of this book with its explanations and methodological approaches will help promote health economics research in many understudied countries.

## REFERENCES

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