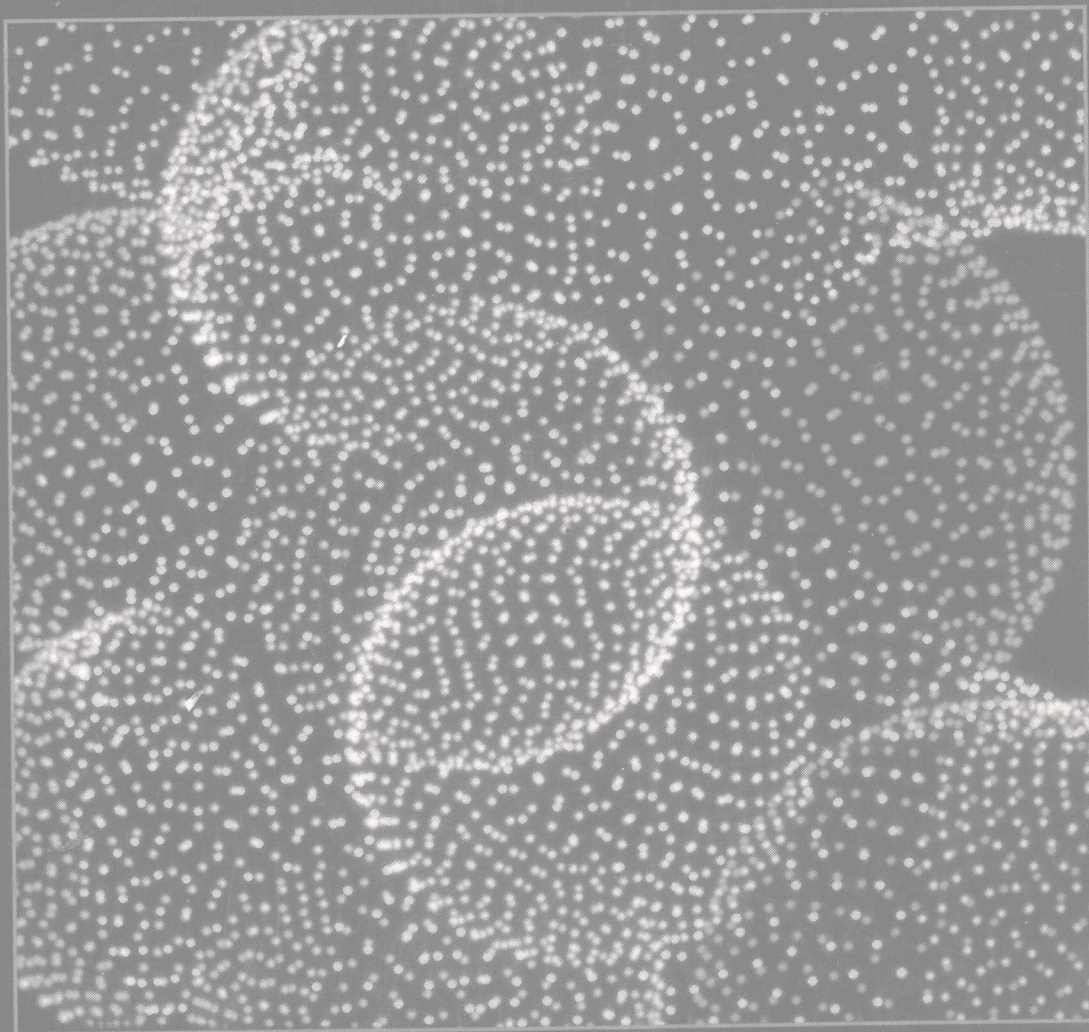


FOURTH EDITION

The Economics of Health and Health Care

Sherman Folland • Allen C. Goodman • Miron Stano



/ FOURTH EDITION

THE ECONOMICS OF HEALTH AND HEALTH CARE



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PREFACE



This is the fourth edition of a book that was conceived in 1990 and first published in 1993. To indicate how much the world of health economics has changed, the first edition made a single reference to “managed care,” and that was in the context of monopoly power in the provision of health care.

This book was first written to assist health economics instructors in developing a clear, step-by-step understanding of health economics for their students. We also believe that it is important for instructors to demonstrate what health economics researchers are doing in theory and in empirical work. The book synthesizes contemporary developments around a set of basic economic principles, including maximization of consumer utility and economic profit, wishing to make these principles accessible to undergraduate students, as well as to graduate students. Rather than organizing the book around the institutions specific to the health care economy, we have used core economics themes as basic as supply and demand, as venerable as technology or labor issues, and as modern as the economics of information. Moreover, we have sought to improve accessibility to the book for the wide range of health services students and practitioners whose knowledge of economics may be more limited.

We have followed the philosophy that students must have a working knowledge of the analytical tools of economics and econometrics to appreciate the field of health economics. Some students may be ready to plunge directly into “The Production of Health” (Chapter 4) upon completion of the introductory Chapter 1. However, Chapter 2 (“Microeconomic Tools”) and Chapter 3 (“Statistical Tools”) allow the students and their teachers to develop or to review the needed analytical concepts before tackling the core subject matter. In Chapters 2 and 3, students with as little as one semester of microeconomics may review and study how economists analyze problems, using examples that are relevant to health economics. No calculus is needed.

Consistent with an emphasis on clarity of exposition, this book makes extensive use of graphs, tables, and charts. Discussion questions and exercises are provided to help students master the basics and to prompt them to think about the issues. Features on up-to-date applications of theory and policy developments are also included, as well as the occasional tidbit containing purely background information.

Finally, we caution that some of the chapters, such as those on insurance, although devoid of advanced mathematics, may still require considerable effort. No painless way is available to appreciate the scope of the contributions that scholars have made in recent years. More advanced students of the health care economy who wish to be challenged further can utilize a comprehensive references section, with more than 800 sources, so that their (and our) work can be enriched through referral to the original sources.

WHAT'S CHANGED IN THE FOURTH EDITION?

It is critical that this textbook contains the most current knowledge and addresses the needs of our readers. As with previous editions, almost every chapter is revised to incorporate significant developments in the field.

In response to the instructors and students who use this book, we have made some changes in its organization. Our newly arranged Part IV identifies key players in the health care sector, with special reference to nonprofit firms (Chapter 13), hospitals (Chapter 14), physicians and labor (Chapter 15), and the pharmaceutical industry (Chapter 16).

The section on social insurance and governmental actions, Part V, has been moved forward to begin with Chapter 17 on equity and need, looking at governmental regulation (Chapters 18 and 19), social insurance (Chapter 20), and finishing with comparative systems and health care reform (Chapter 21).

Our new Part VI examines special topics. Chapter 22 continues from the previous edition, looking at economic “bads,” such as cigarettes. Chapter 23 is a brand-new chapter that examines the economic consequences of epidemics, with particular interest in the worldwide AIDS epidemic. We conclude with Chapter 24 by looking in more detail at the various aspects of cost-benefit analysis, the tool so very important to health analysts.

ADDITIONAL SOURCES

Another change involves the emergence of important new resources for students and scholars. The Internet now contains tables and charts that were once available only in book form, and then only after several years. They are now available much more quickly, and are often available on the Internet long before they are available (if at all) in print. The downside to this explosion of information involves editorial oversight (not all sources are good ones) and frustrating tendencies for Internet sites to disappear. We have chosen to focus on sites that we believe to be both long lasting and reliable.

- National Institutes of Health (www.nih.gov/)
- Centers for Medicare and Medicaid Services, formerly the Health Care Financing Administration, or HCFA (cms.hhs.gov/)
- Social Security Administration (www.ssa.gov/)
- Bureau of the Census (www.census.gov/)
- Center for Disease Control (www.cdc.gov/)
- Organization for Economic Cooperation and Development, for international data (www.oecd.org/)

Journals are increasingly accessible both in print and over the Internet. Most health economists make a point of browsing *Health Affairs*, an up-to-date policy journal, while the *Journal of Health Economics* and *Health Economics* have emerged as the leading technical specialty journals. There are also many other specialized journals to address readers' needs.

The *Handbook of Health Economics*, published in 2000, has emerged as an invaluable source for specific topics, examined in more detail, and with more mathematic rigor than can any text, including this one. Students and their teachers who are seeking research or dissertation topics should find this two-volume set to be most useful.

ALTERNATIVE COURSE DESIGNS

As a developing field, the economics of health and health care has an evolving body of literature, and there is no single “correct” order for the course design. Economists (particularly U.S. economists) typically organize topics through markets, with government roles coming much later. Students and scholars of public health assign the governmental sector far more importance; it is “public” health. Unfortunately, a text is necessarily linear in that one chapter has to follow another.

The Economics of Health and Health Care offers instructors considerable flexibility. We have divided the 24 chapters into six parts:

- I. Basic Economic Tools (Chapters 1–3)
- II. Supply and Demand (Chapters 4–8)
- III. Information and Insurance Markets (Chapters 9–12)
- IV. Key Players in the Health Care Sector (Chapters 13–16)
- V. Social Insurance (Chapters 17–21)
- VI. Special Topics (Chapters 22–24)

The categories are not entirely exclusive. Chapter 7, looking at the demand and supply of insurance, is as important to Part III on insurance as it is to Part II on demand and supply of goods.

From front to back, the organization follows an “economics” model in which consumers and firms are first analyzed in a world without government and governmental policies. As a result, explicit discussions of government policies do not come until Chapter 17, although regulation, licensing, mandates, and the like are discussed in reference to other topics much earlier. Many economics instructors may wish to follow the chapters in the order of the book.

Other instructors, particularly those who are interested in public health and in governmental policies, may wish to “tool up” on some of the earlier analyses, and then skip directly to Part V, in which we look at social insurance, health care regulation, and health care reform. After that, they may wish to browse selected topics. Although some analyses build on each other within chapters, we have sought to minimize cross-referencing among chapters.

NEW INSTRUCTIONAL MATERIALS

We are pleased to provide our users with two new features. Instructors and students will be able to log on to www.prenhall.com/folland where they will find occasional timely features, as well as links to useful health-related locations elsewhere on the Web. In addition, our new Instructor’s Manual will provide instructors with teaching hints, suggestions for discussion, and additional questions (with answers). With the increased use of our book for professional, as well as distance education, the manual will prove invaluable for teachers in both traditional and nontraditional settings. Instructors should contact their Prentice Hall sales representative for the user identification number and password to access the faculty resources.

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Because this book emerges from years of classroom and professional interaction, we thank those students and colleagues who have discussed the economics of health and health care with us, and who have challenged our ideas. Perhaps our most significant debts go to Annie Todd,

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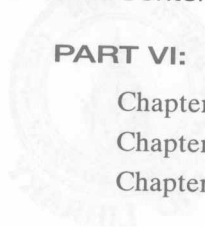
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