

HEALTH ECONOMICS



Theories, Insights, and Industry Studies

Santerre • Neun

HEALTH ECONOMICS: THEORIES, INSIGHTS, AND INDUSTRY STUDIES

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Compositor: *Wm. C. Brown Publishers*
Typeface: *10/12 Times Roman*
Printer: *R. R. Donnelley & Sons Company*

 **Times Mirror**
 **Higher Education Group**

Library of Congress Cataloging-in-Publication Data

Santerre, Rexford E.
Health economics: theories, insights, and industry studies
Rexford E. Santerre, Stephen P. Neun.
p. cm.
Includes index.
ISBN 0-256-15113-X
1. Medical economics. I. Neun, Stephen P. II. Title.
RA410.S26 1996
338.4'33621—dc20

95-20228

Printed in the United States of America
2 3 4 5 6 7 8 9 0 DO 2 1 0 9 8 7 6

HEALTH ECONOMICS:
THEORIES, INSIGHTS, AND
INDUSTRY STUDIES

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PREFACE

We developed and wrote this book out of dissatisfaction with the current selection of health economics textbooks. Basically, we believe the existing health economics textbooks are not sufficiently “user friendly.” We hope that students are able to understand the material in this book with only minor assistance from their professors. Assuming that objective is accomplished, the professor is free to use classroom time to highlight and extend the health care issues and problems contained here or to introduce new topics to students. Providing the professor with the flexibility to introduce new topics rather than having to cover the book in close detail is especially important today given that the health economy is currently undergoing such a rapid and radical structural transformation.

Our main target audience is the student who has had minimal exposure to economics or the economics major who desires a sound and long-lasting understanding of health economics theory and its application to real-world health care problems and issues. As such, our audience includes undergraduate students and students enrolled in master of business administration or master of public health programs. This book is not written for Ph.D. students in economics, although it might be used for background information. Because of the intended audience, the book is self-contained, simultaneously teaching microeconomic theory and its application to health care topics.

The material contained in this book is as current and relevant as humanly possible and presented in a very systematic yet lively manner. Admittedly, we have purposely sacrificed some theoretical rigor for a deeper, more fundamental and intuitive understanding of health economics. Nevertheless, the ideas, principles, and concepts developed in this book remain theoretically consistent and challenging for most students. More important, we believe the book will be read!

The textbook contains five parts. Part I, Chapters 1 through 6, deals with basic health economics concepts such as trade-offs, the production of good health, the demand for medical care, production and cost theory, cost-benefit analysis, and health care systems and institutions. Chapter 6 provides a brief overview of the structural features of the U.S. health care system to familiarize students with institutions such as HMOs, PPOs, DRGs, Medicare, and Medicaid early in the course.

Part II, Chapters 7 through 9, analyzes the behavior of health care providers in a number of different settings based on the objective of the firm and competitiveness of the market environment. Profit maximization, perfect competition, imperfect competition, and nonprofit objectives are among the topics covered. More advanced students of economics can cover the material in Chapters 7 and 8 quite quickly. Even those students, however, should find the insights enlightening because they reinforce understanding of how medical markets operate under different conditions.

Part III, Chapters 10 and 11, focuses on the role of government in health matters and medical care markets. Chapter 10 provides an overview of government functions such as regulation, antitrust, and redistribution as applied to health and medical care issues. Chapter 11 discusses government's important role as a producer of health insurance and examines the Medicaid and Medicare programs in considerable detail. Again, the insights offer a lively illustration of health economics in action.

Part IV, Chapters 12 through 15, uses the theories developed in the earlier chapters to extensively analyze specific health care industries by applying the structure, conduct, and performance paradigm of industrial organization. The private health insurance, physician, hospital, and pharmaceutical industries are covered in great depth, and the analysis is kept as current as possible.

Part V, Chapter 16, deals with health care reform. Some of the more popular plans for reforming the U.S. health care system at the federal and state levels are discussed and evaluated.

The book ends with two appendixes and a glossary. Appendix 1 covers the fundamentals of multiple regression analysis. The information contained in Appendix 1 is particularly useful since we present the actual regression results of various empirical studies throughout the book as a way of demonstrating how theories can be tested and how economic relations can be quantified. Appendix 2 provides an economic analysis of a competitive input market and explains how the price and employment of an input are determined in a competitive marketplace. Finally, a glossary is provided at the end of the book for those students who forget a definition from time to time.

We would like to express our sincerest gratitude to all of the reviewers for their helpful comments and suggestions for improving the book. We think the book is a much improved product as a result. In particular, we would like to thank

Steven Andes	DePaul University
Mary Ann Baily	George Washington University
Sylvester Berki	University of Michigan (Ann Arbor)
Partha Deb	IUPUI
Randall Ellis	Boston University
Dennis Heffley	University of Connecticut
Donald Kenkel	Pennsylvania State University
Frank Musgrave	Ithaca College
Albert Oriol	University of Florida
James Thornton	Eastern Michigan University
Gary Wyckoff	Hamilton College
Donald Yett	University of Southern California

We especially thank Steven Andes, Mary Baily, and Gary Wyckoff for their exhaustive and honest appraisal of the original manuscript and the graduate economics students at the University of Connecticut for reading and evaluating some of the chapters. We greatly appreciate Bruce Carpenter of Mansfield University for developing the succinct and highly comprehensible appendix on econometrics. We are also indebted to Gary Nelson, the economics editor at Irwin, for having faith in our proposed textbook, Tia Schultz, formerly an editorial assistant at Irwin, for her encouragement and support in bringing this book to fruition, and the production staff at Irwin for their professional support. Finally, we thank Bentley College and Utica College for providing us with concurrent sabbaticals. Without the opportunity to work closely together, our task would have been much more difficult.

Our goal is to create the best possible learning device for students and teaching tool for professors. If any of our readers, students, or colleagues have any complaints or suggestions for improvement, please bring them to our attention. Any comments will be deeply appreciated.

Rex Santerre
Stephen Neun

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PART

I

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