

# BRIEF CONTENTS

<i>List of Cases</i> .....	xv
<i>Preface to the Fourth Edition</i> .....	xvii
<b>Chapter 1.</b> Why Health Economics? .....	1
<b>Chapter 2.</b> An Overview of the US Healthcare System .....	17
<b>Chapter 3.</b> An Overview of the Healthcare Financing System .....	37
<b>Chapter 4.</b> Describing, Evaluating, and Managing Risk.....	55
<b>Chapter 5.</b> Understanding Costs.....	73
<b>Chapter 6.</b> Realizing the Triple Aim .....	89
<b>Chapter 7.</b> The Demand for Healthcare Products .....	109
<b>Chapter 8.</b> Elasticities .....	125
<b>Chapter 9.</b> Forecasting.....	137
<b>Chapter 10.</b> Supply and Demand Analysis.....	153
<b>Chapter 11.</b> Maximizing Profits.....	169
<b>Chapter 12.</b> Pricing .....	185
<b>Chapter 13.</b> Asymmetric Information and Incentives .....	199
<b>Chapter 14.</b> Economic Analysis of Clinical and Managerial Interventions.....	219
<b>Chapter 15.</b> Profits, Market Structure, and Market Power .....	237
<b>Chapter 16.</b> Government Intervention in Healthcare Markets .....	257
<b>Chapter 17.</b> Regulation .....	277
<b>Chapter 18.</b> Behavioral Economics .....	293
<i>Answers to Select Chapter Exercises</i> .....	309
<i>Glossary</i> .....	313
<i>Index</i> .....	323
<i>About the Author</i> .....	341

# DETAILED CONTENTS

<i>List of Cases .....</i>	xv
<i>Preface to the Fourth Edition .....</i>	xvii
<b>Chapter 1.</b> Why Health Economics? .....	1
1.1 Why Health Economics? .....	1
1.2 Economics as a Map for Decision Making .....	2
1.3 Special Challenges for Healthcare Managers.....	3
1.3.1 Risk and Uncertainty .....	4
1.3.2 Insurance .....	4
1.3.3 Information Asymmetries .....	5
1.3.4 Not-for-Profit Organizations.....	5
1.3.5 Technological and Institutional Change .....	6
1.4 Turmoil in the Healthcare System .....	6
1.4.1 The Pressure to Reduce Costs.....	7
1.4.2 The Fragmentation of Healthcare Payments.....	8
1.5 What Does Economics Study? .....	9
1.6 Conclusion.....	13
Exercises .....	13
References.....	15
<b>Chapter 2.</b> An Overview of the US Healthcare System .....	17
2.1 Input and Output Views of Healthcare .....	17
2.1.1 The Input View .....	18
2.1.2 The Output View.....	20
2.2 Health Outcomes.....	20
2.3 Outputs of the Healthcare System.....	22
2.3.1 Why Is How Much We Spend on Healthcare Interesting? .....	22
2.3.2 Why Is Healthcare Spending Rising More Slowly Than Anticipated?.....	22
2.4 The Shifting Pattern of Healthcare Spending .....	25
2.5 Disruptive Change in the Healthcare System.....	27
2.5.1 Rapid Technological Change.....	28

2.5.2 Major Features of the Affordable Care Act.....	30
2.5.3 The Transformation of the Health Insurance Industry .....	31
2.6 Conclusion.....	32
Exercises .....	32
References.....	34
<b>Chapter 3.</b> An Overview of the Healthcare Financing System .....	37
3.1 Introduction .....	37
3.1.1 Paying for Medical Care.....	37
3.1.2 Direct Spending.....	38
3.1.3 Sources of Insurance .....	39
3.1.4 The Uninsured.....	39
3.2 What Is Insurance, and Why Is It So Prevalent? .....	40
3.2.1 What Insurance Does.....	40
3.2.2 Adverse Selection and Moral Hazard.....	41
3.2.3 Medicare as an Example of Complexity .....	42
3.3 The Changing Nature of Health Insurance .....	44
3.4 Payment Systems.....	48
3.5 Conclusion.....	51
Exercises .....	51
References.....	52
<b>Chapter 4.</b> Describing, Evaluating, and Managing Risk.....	55
4.1 Introduction .....	55
4.2 Describing Potential Outcomes .....	56
4.3 Evaluating Outcomes .....	58
4.3.1 Expected Values .....	58
4.3.2 Outcome Variation.....	60
4.3.3 Risk Preferences .....	62
4.3.4 Decision Analysis .....	63
4.3.5 Sensitivity Analysis .....	63
4.3.6 Scenario Analysis.....	64
4.4 Managing Risk .....	64
4.4.1 Risk Sharing.....	64
4.4.2 Diversification .....	65
4.5 Conclusion.....	67
Exercises .....	68
References.....	71

<b>Chapter 5.</b>	Understanding Costs.....	73
5.1	Understanding Costs.....	73
5.2	Cost Perspectives .....	74
5.3	Vocabulary .....	77
5.4	Factors That Influence Costs.....	79
5.4.1	Outputs .....	79
5.4.2	Input Costs.....	81
5.4.3	Technology .....	81
5.4.4	Efficiency .....	81
5.5	Variable and Fixed Costs .....	82
5.6	Conclusion.....	85
	Exercises .....	85
	References.....	87
<b>Chapter 6.</b>	Realizing the Triple Aim .....	89
6.1	What Is the Triple Aim? .....	89
6.1.1	Accountable Care Organizations .....	90
6.1.2	Bundled Payments .....	91
6.1.3	Patient-Centered Medical Homes .....	91
6.1.4	Value-Based Insurance Designs .....	93
6.2	Improving the Experience of Care .....	96
6.3	Improving Population Health .....	97
6.3.1	What Is Population Health? .....	97
6.3.2	What Are Modifiable Social Determinants of Health?.....	98
6.4	Reducing Cost per Capita .....	98
6.5	Conclusion.....	101
	Exercises .....	102
	References.....	103
<b>Chapter 7.</b>	The Demand for Healthcare Products.....	109
7.1	Introduction .....	109
7.1.1	Rationing.....	110
7.1.2	Indirect Payments and Insurance.....	111
7.2	Why Demand for Healthcare Is Complex.....	111
7.3	Demand Without Insurance and Healthcare Professionals .....	112
7.3.1	Changes in Price .....	112
7.3.2	Factors Other Than Price .....	114
7.4	Demand with Insurance .....	115

7.5 Demand with Advice from Providers .....	118
7.6 Conclusion.....	120
Exercises .....	121
References.....	123
<b>Chapter 8.</b> Elasticities .....	125
8.1 Introduction .....	125
8.2 Elasticities .....	126
8.3 Income Elasticities .....	127
8.4 Price Elasticities of Demand .....	127
8.5 Other Elasticities.....	130
8.6 Using Elasticities .....	130
8.7 Conclusion.....	132
Exercises .....	133
References.....	134
<b>Chapter 9.</b> Forecasting.....	137
9.1 Introduction .....	137
9.2 What Is a Sales Forecast? .....	138
9.3 Forecasting .....	140
9.4 What Matters? .....	145
9.5 Conclusion.....	148
Exercises .....	149
References.....	152
<b>Chapter 10.</b> Supply and Demand Analysis.....	153
10.1 Introduction .....	153
10.1.1 Supply Curves.....	154
10.1.2 Demand Curves .....	155
10.1.3 Equilibrium.....	155
10.1.4 Professional Advice and Imperfect Competition .....	155
10.2 Demand and Supply Shifts .....	156
10.2.1 A Shift in Demand .....	158
10.2.2 A Shift in Supply .....	159
10.3 Shortage and Surplus .....	160
10.4 Analyses of Multiple Markets.....	162
10.5 Conclusion.....	163
Exercises .....	163
References.....	167

<b>Chapter 11.</b>	Maximizing Profits.....	169
	11.1 Introduction .....	169
	11.2 Cutting Costs to Increase Profits.....	170
	11.2.1 Cost Reduction Through Improved Clinical Management .....	171
	11.2.2 Reengineering.....	173
	11.3 Maximizing Profits.....	173
	11.4 Return on Investment.....	175
	11.5 Producing to Stock or to Order .....	176
	11.6 Not-for-Profit Organizations.....	177
	11.6.1 Agency Problems .....	177
	11.6.2 Differences in Goals .....	177
	11.6.3 Differences in Costs .....	178
	11.7 Conclusion.....	180
	Exercises .....	181
	References.....	183
<b>Chapter 12.</b>	Pricing .....	185
	12.1 Introduction .....	185
	12.2 The Economic Model of Pricing .....	186
	12.3 Pricing and Profits .....	187
	12.4 Price Discrimination.....	189
	12.5 Multipart Pricing .....	192
	12.6 Pricing and Managed Care .....	194
	12.7 Conclusion.....	195
	Exercises .....	196
	References.....	198
<b>Chapter 13.</b>	Asymmetric Information and Incentives .....	199
	13.1 Asymmetric Information .....	199
	13.2 Opportunism .....	200
	13.2.1 Remedies for Asymmetric Information .....	201
	13.2.2 The Special Challenges for Healthcare .....	201
	13.2.3 Signaling.....	202
	13.3 Incentive Design for Providers .....	202
	13.4 Insurance and Incentives .....	205
	13.5 Limits on Incentive-Based Payments .....	208
	13.5.1 Risk .....	208
	13.5.2 Complexity .....	208
	13.5.3 Opportunistic Responses.....	208

13.5.4 Team Production .....	209
13.6 Incentive Design for Managers.....	209
13.7 Conclusion.....	213
Exercises .....	213
References.....	216
<b>Chapter 14.</b> Economic Analysis of Clinical and Managerial Interventions .....	219
14.1 Introduction .....	219
14.2 Cost Analysis.....	221
14.2.1 Identifying a Cost Perspective .....	221
14.2.2 Identifying Resources and Opportunity Costs...222	222
14.2.3 Direct and Indirect Costs.....	223
14.3 Types of Analysis.....	223
14.4 Cost–Minimization Analysis.....	224
14.5 Cost–Effectiveness Analysis.....	225
14.6 Cost–Benefit Analysis .....	226
14.7 Cost–Utility Analysis .....	228
14.8 Conclusion.....	233
Exercises .....	234
References.....	235
<b>Chapter 15.</b> Profits, Market Structure, and Market Power .....	237
15.1 Introduction .....	237
15.2 Rivalry Among Existing Firms.....	239
15.3 Defining Market Structures .....	240
15.4 Customers’ Bargaining Power .....	241
15.5 The Bargaining Power of Suppliers .....	243
15.6 Entry by Potential Rivals.....	244
15.7 Market Structure and Markups.....	245
15.7.1 Markups.....	246
15.7.2 The Impact of Market Structure on Prices .....	247
15.8 Market Power and Profits.....	248
15.8.1 Collusion .....	248
15.8.2 Product Differentiation and Advertising.....	249
15.9 Conclusion.....	253
Exercises .....	254
References.....	256
<b>Chapter 16.</b> Government Intervention in Healthcare Markets .....	257
16.1 Government Intervention in Healthcare.....	258

16.1.1 On the Virtues of Markets .....	258
16.1.2 Information Processing .....	258
16.1.3 Static Resource Allocation.....	260
16.1.4 Dynamic Resource Allocation.....	261
16.2 Market Failure .....	261
16.2.1 Externalities .....	262
16.2.2 Public Goods .....	264
16.2.3 Imperfect Competition .....	267
16.2.4 Imperfect Information and Incomplete Markets .....	267
16.2.5 Natural Monopoly .....	269
16.2.6 Income Redistribution .....	269
16.3 Remedies .....	269
16.3.1 Assignment of Property Rights.....	270
16.3.2 Taxes and Subsidies.....	271
16.3.3 Public Production .....	272
16.3.4 Regulation .....	272
16.4 Conclusion.....	272
Exercises .....	273
References.....	276
 <b>Chapter 17.</b> Regulation .....	277
17.1 Introduction .....	277
17.2 Market Imperfections.....	278
17.2.1 Insurance .....	279
17.2.2 Market Power .....	279
17.2.3 Externalities .....	279
17.3 Rational Consumer Ignorance.....	280
17.4 The Interest Group Model of Regulation.....	281
17.4.1 Limiting Competition .....	282
17.4.2 Licensure .....	282
17.4.3 Regulation as a Competitive Strategy .....	283
17.5 Regulatory Imperfections.....	283
17.6 Market Responses to Market Imperfections.....	285
17.6.1 Tort Law and Contract Law.....	286
17.6.2 Information Dissemination.....	286
17.6.3 Contracts .....	287
17.7 Conclusion.....	288
Exercises .....	289
References.....	291

<b>Chapter 18.</b>	Behavioral Economics .....	293
18.1	Introduction .....	293
18.2	Inconsistent Preferences .....	294
18.3	Risk Preferences .....	296
18.4	Incorrect Beliefs.....	297
18.5	Representativeness and the Law of Small Numbers .....	299
18.6	Inconsistent Decision Making: Framing .....	300
18.7	Conclusion.....	303
	Exercises .....	304
	Note .....	306
	References.....	306
	<i>Answers to Select Chapter Exercises</i> .....	309
	<i>Glossary</i> .....	313
	<i>Index</i> .....	323
	<i>About the Author</i> .....	341