



Health(care) Economics

Rotary Club of The Villages
May 6th, 2021

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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

Who Are We?

- **Honorary Board: 49 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

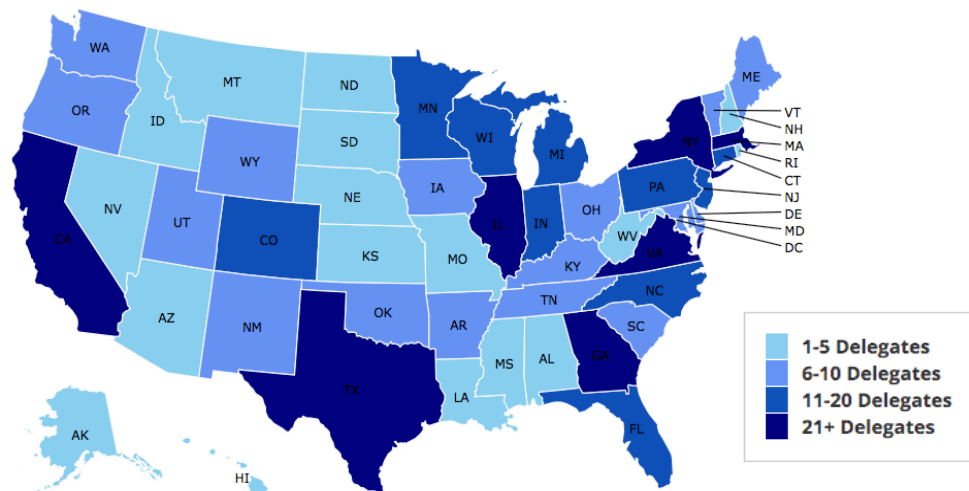


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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**

- Veronika Dolar, SUNY Old Westbury

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Outline

- What is Health(care) Economics?
- Taking the Pulse of the Health Economy
- Health Care Systems and Institutions
- Health Insurance and Reform
- Pharmaceuticals – Big Pharma



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Health Economics is part of Microeconomics

- Although health economics is part of “micro-” economics, it is actually very big:
- In 2019, U.S. national health expenditure was 17.8% of GDP, which is equivalent to around \$3,427 billions.
- For comparison, the entire GDP of Germany in 2019 was \$3,845 billions (4th largest economy), GDP of UK was \$2,827 billions (6th largest economy), and \$2,715 billions in France (7th largest economy).



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What is Health Economics?

- Health economics studies health care resources markets and health insurance.
- Healthcare is the biggest industry and the largest employer in the US.



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Markets studied in health economics

- **Markets for:**

- Physicians
- Nurses
- Hospital facilities
- Nursing homes
- Pharmaceuticals
- Medical supplies (such as diagnostic and therapeutic equipment)
- **Health Insurance**



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Market Economies

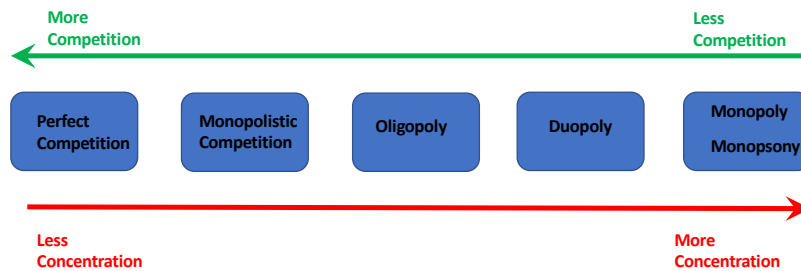
- In market economies, prices adjust to balance supply and demand.
- These equilibrium prices are the signals that guide economic decisions and thereby allocate scarce resources.
- The invisible hand works through the price system:
 - The interaction of buyers and sellers determines prices.
 - Each price reflects the good's value to buyers and the cost of producing the good.
 - Prices guide self-interested households and firms to make decisions that, in many cases, maximize society's economic well-being.



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What types of markets are there?



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Hospital Monopolization

- Market consolidation among and between health systems, hospitals, medical groups, and health insurers has surged over the last decade.
- Over an 18-month period between July 2016 and January 2018, hospitals acquired 8,000 more medical practices, and 14,000 more physicians left independent practice to become hospital employees, according to an analysis.



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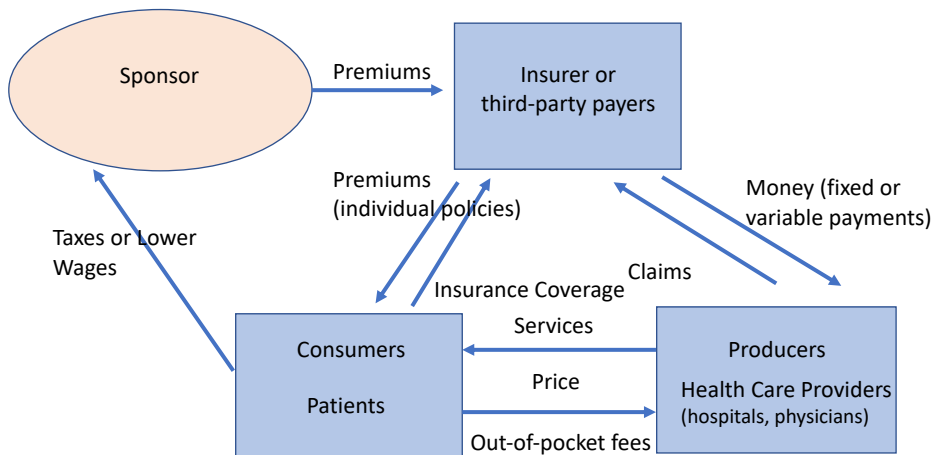
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Hospital Monopolization: Florida

- South Florida hospitals recorded combined profits of nearly \$1.3 billion in 2018 and have posted combined profits above \$1 billion for four of the past five years.
- HCA hospitals were the most profitable, with a net income of \$363.6 million.
- Baptist Health, a nonprofit and the largest system in the Miami area, had a net income of \$142.8 million and Memorial Healthcare System in Broward County, a nonprofit hospital network, had a net income of \$158.6 million.

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Health Care Markets are Different



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Is there something special about Health Care Markets?

- Market Structure
- Type of products and services
- Principal-Agent Problem
- Asymmetric Information
- Moral Hazard



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Pulse of the Health Economy

- **Health economy involves activities related to population health:**
 - Production and consumption of goods and services
 - Distribution of those goods to consumers
- **Performance indicators of medical care**
 - Costs
 - Quality
 - Access



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Tradeoffs

Tradeoffs take place among the three legs:

- By increasing quality health care this leads to higher health care costs, which means that some individuals might not be able to afford it and the access may be more limited.
- By increasing access, the costs and/or quality may suffer.
- By decreasing costs, access and/or quality may suffer.



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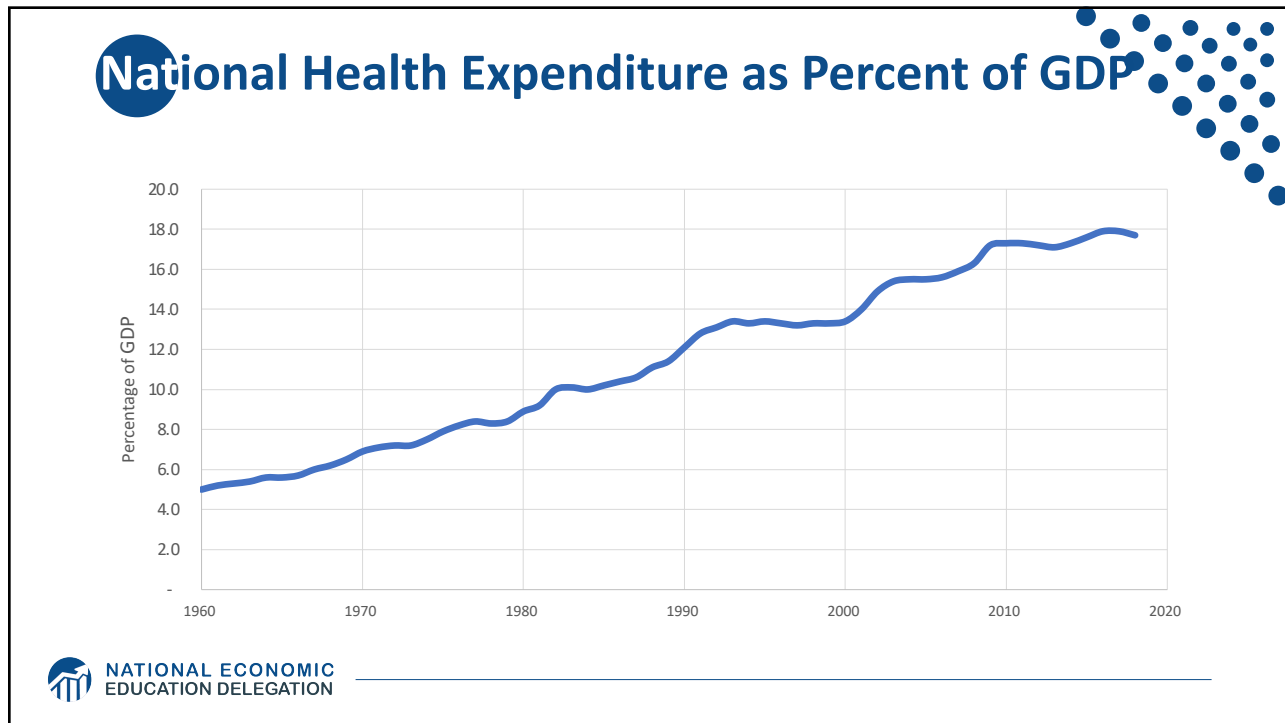
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Costs

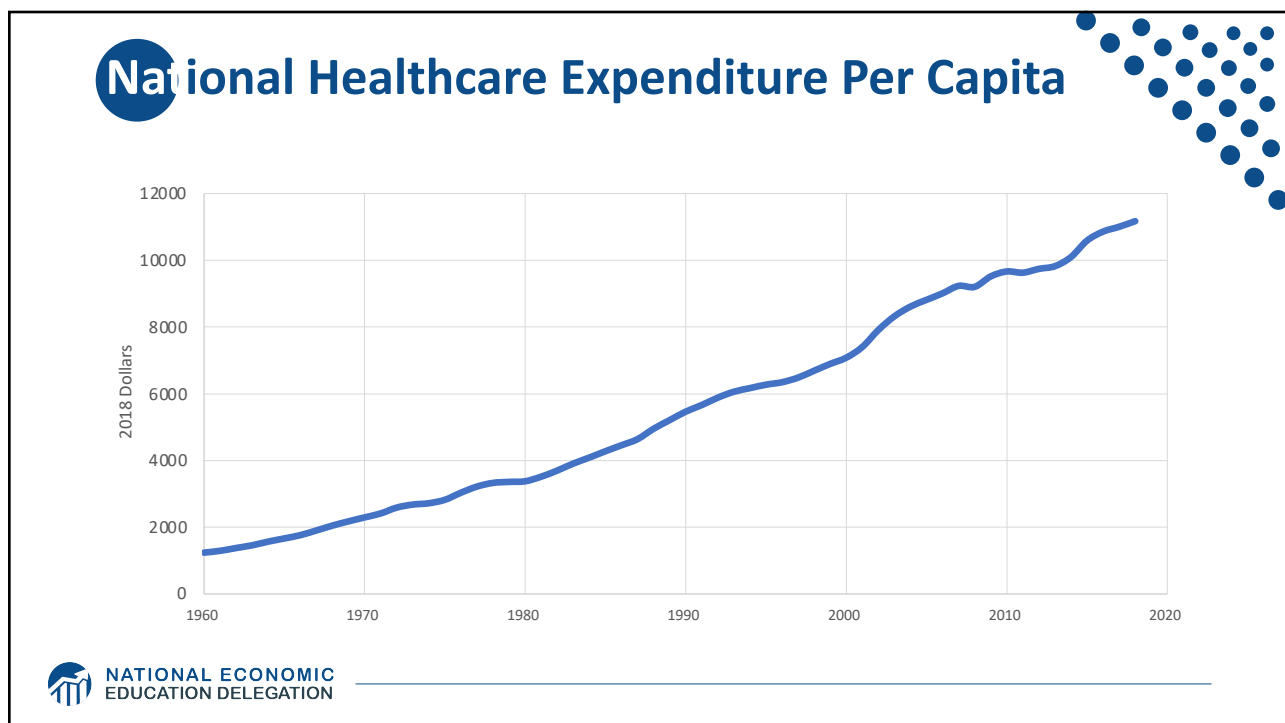


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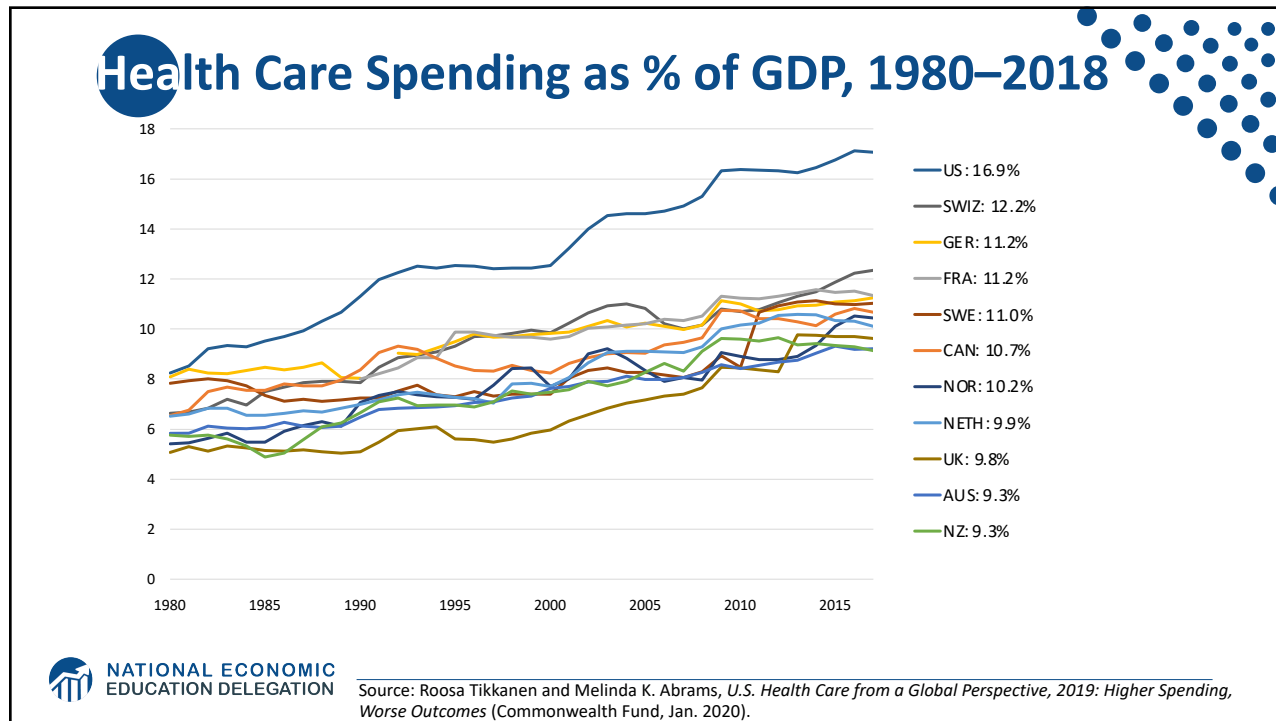
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Monopolization of Health Insurance Market

- As of 2011, there were close to 100 insurers in Switzerland competing for consumer health care dollars, forcing firms to compete by setting prices to just cover costs.
- In the United States, markets are state specific and consumers may choose from plans available in the state in which they reside.
- In 2014, of the 50 states and the District of Columbia, 11 had only 1 or 2 insurers, 21 had 3 or 4, and only 19 states had 5 or more.
- As of July 2019, the number of states with only 1 or 2 insurers had increased from 11 to 20, indicating a growing divide between ACA exchanges and competitive markets.

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Thank you!

Any Questions?

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