



# Introduction to Health Economics



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# What is Economics?

- Paul Samuelsson:

*Economics is the study of how men and society  
choose,  
with or without the use of money, to employ  
scarce resources  
to produce various commodities over time  
and distribute them for consumption, now  
and in the future, among various people  
and groups in society*



# What is Health Economics?

- Economics and the Health System
  - *the choice between “invisible hand systems” and regulated systems*
- Health and economic development
  - *wealth for health, or health for wealth or both?*
- Economics and Management
  - *making a regulated system “effective”*



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# The Invisible Hand - no rules, please!

- ADAM SMITH :W wealth of nations 1776

- *The invisible hand creates effective production of services and goods through the balance between on the one hand consumer preferences and resources and on the other producers supply, priced through factor costs in a competitive environment*

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# Value based Health

- Equity

– of what? Cost? Access? Outcome?

- Stability

– Bismark and the Communist Manifesto

- Realisation of Rights

– religion, declaration of human rights

- Development

– Economic, social, cultural, human

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# Macroeconomic stability

- Long term real economic growth
- Balance between consumption/investment
- Balance between private/public
- Low inflation
- Low business cycle volatility

...and all pieces stick together in equilibrium seeking dynamics...

# The Market Failure approach

- risk sharing of catastrophic costs
  - *unforeseeable costs over time*
  - *unforeseeable distribution of costs within group*
- information asymmetry
  - *“invisible hand” needs informed choices to produce effective production*
- public goods
  - *individual choices may not add up to “critical volumes” for the good of the collective*

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## The mixed system

- Value based financing and regulation
  - The basic regulatory model for value based systems: low/no cost, full coverage and high quality
- Competition based provision - the internal market
  - Public provision no precondition for value based system. Competition “in principle” possible



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## Purchaser and Provider split

- Single purchaser mechanisms
  - top down - state/region/municipality purchasers
  - bottom up - GP or primary health care trusts as purchasers
- Multiple purchaser mechanisms
  - Insurance companies, health maintenance organisations as purchasers

# Health and Development

- The Concept of Development
- Economic development as a causal factor for health
  - the driving factors: environment, life style, info, access to care
- Health as a causal factor for economic development
  - the driving factors: productivity, demographic composition, trust

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# Economics and management

- Third party payer concept
  - risks sharing leads to “some one else” paying:
    - State/municipality taxes
    - Social insurance fund (monolithic)
    - compulsory private insurance
    - voluntary insurance with wide coverage
  - and to cost containment policies for macroeconomic stability

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# Third party payer and macroeconomic stability

- Limitation on health  
consumption/investments to avoid

- – too low saving quota/too low investments
- – overheated labour market/inflation
- – crowding out vis à vis other public sectors
- – too low private consumption/poverty traps

Could health sector be too small for macroeconomic stability?

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## Doing the right thing...

- Allocative decisionmaking
  - Defining needs of interventions in economic terms
    - the value of life
    - DALY
  - Paretian value judgement
  - Cost - benefit analysis



# Cost management mechanisms

- Factor budgeting
- internal pricing with caps (incl DRG)
- capitation
- prioritisation rules
- co-payment - out of pocket financing



# Doing the thing right...

- Organisational incentives - rewarding organisational goal achievement

- decentralisation
- profit sharing
- quality management

- Individual incentives

- effective remuneration policies
- peer/patient rewards
- social position rewards

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# Equity and best health care - is it feasible?

- The technology challenge
- The demographic challenge
- Value change from social transition