

ECON4615 Health Economics

This course is about the application of economics to problems related to demand, supply and production of health, health services and social services. The point of departure is that demand for health care is derived from the demand for health. In this respect the tradeoff between prevention and cure is a central feature.

Uncertainty related to future health creates demand for health insurance. Health insurance implies that the price the consumer faces when using health services is lowered. Typically, the consumer has more information about the probability of illness and preventive effort than the insurer. Hence, the decline in consumer price may encourage a decline in prevention and an increase in the demand for health services. Social efficiency requires that the benefit from insurance be balanced against the inefficiency caused by moral hazard and adverse selection. The analysis of alternative design of health insurance is an important part of the course. Distributional considerations, as the trade-off between efficiency and equity, are given particular consideration.

What concepts from information economics and contract theory are useful to describe health and social services? What is the position of the consumer, in terms of information and consumer sovereignty? Though the answer differs with the specific type of service, clarifying these questions is important in order to identify key organizational challenges and analyze policy. The course focuses particularly on the implications of the provider being better informed about the effect of diagnostic and curative health services, than the patient and the insurer. Alternative organizational forms and payment schemes are analyzed.

Reading list (a detailed guidance to the reading list will be given at the lectures. All articles are found in a compendium to be bought at Akademika Bookshop):

1. Introduction

OECD, 2003. Health at a glance – OECD indicators 2003 (OECD, Paris).

OECD, 2004. Towards high-performing health systems (OECD, Paris).

2. Health systems

Cutler, D., 2002. Equality, efficiency and market fundamentals: The dynamics of international medical-care reform. *Journal of Economic Literature* 40, 881-906.

Kornai, J. and Eggleston, K., 2001. Welfare, choice and solidarity in transition (Cambridge University Press, Cambridge) 47-99.

3. Demand for health and health services

Grossmann, M., 2000, The Human Capital Model. In A. J. Culyer and J.P. Newhouse, eds., *Handbook of Health Economics*. Volume 1A (Elsevier Science B.V., Amsterdam) 348-408.

Hey, J. D. and M. S. Patel, 1983, Prevention and cure? Or: Is an ounce of prevention better than a pound of cure? *Journal of Health Economics* 2, 119-138.

4. Demand for health insurance

Rees R, 1989, Uncertainty, information and insurance, in J. D. Hey, ed., *Current Issues in Microeconomics* (Palgrave Macmillan, London).

Arrow, K. E., 1963, Uncertainty and the welfare economics of medical care, *American Economic Review* 53, 941-973.

5. Distributional considerations

Williams, A., Cookson, R., 2000. Equity in Health. In A.J.Culyer and J.P. Newhouse (ed.): *Handbook of Health Economics, Volume 1B* (Elsevier Science, Amsterdam) 1863-1910.

6. Health service provision

Biørn, E., Hagen, T. P., Iversen, T., Magnussen, J., 2003. The Effect of Activity-Based Financing on Hospital Efficiency: A Panel Data Analysis of DEA Efficiency Scores 1992–2000. *Health Care Management Science* 6, 271–283.

Chalkley, M., Malcomson, J. M., 2000. Government purchasing of health services. In A.J.Culyer and J.P. Newhouse (ed.): *Handbook of Health Economics Volume 1A*, (Elsevier Science, Amsterdam) 847-889.

Eika, K. 2003. Low Quality-effective Demand, Memorandum 36/2003. Department of Economics, University of Oslo.

Iversen, T., 2004. The effects of a patient shortage on general practitioners' future income and list of patients. *Journal of Health Economics* 23, 673-694.

McGuire, T. G., 2000. Physician agency. In A. J. Culyer and J. P. Newhouse: *Handbook of Health Economics, Volume 1A* (Elsevier Science, Amsterdam) 461-536.

Norwegian speaking students will find useful information about the Norwegian health care system in:

NOU:2003:1. Behovsbasert finansiering av spesialisthelsetjenesten (Statens forvaltningstjeneste, Oslo).