Preface Acknowledgments		23
		27
1	Introduction	29
	What Is Health Economics?	30
	Box 1.1 Technological Change and Health Care Costs-	
	Why Rising Health Care Costs Affect All Nations	31
	The Relevance of Health Economics	32
	The Size and Scope of the Health Economy	32
	Health Care's Share of GDP in the United States	32
	Health Care Spending in Other Countries	33
	Importance of the Health Economy in Personal Spending	33
	Importance of Labor and Capital in the Health Economy	35
	Time—The Ultimate Resource	37
	The Importance Attached to Economic Problems of	
	Health Care Delivery	37
	Inflation	38
	Access	39
	Quality	39
	The Economic Side to Other Health Issues	39
	Economic Methods and Examples of Analysis	39
	Features of Economic Analysis	40
	Scarcity of Resources	40
	Rational Decision Making	40
	Marginal Analysis	40
	Use of Models	40
	Two Notable Contributors to Health Economics	41
	Does Economics Apply to Health and Health Care?	41
	An Example: Does Price Matter?	42
	Is Health Care Different?	43
	Presence and Extent of Uncertainty	43
	Prominence of Insurance	43
	Problems of Information	45

	Large Role of Nonprofit Firms	46
	Restrictions on Competition	46
	Role of Equity and Need	46
	Government Subsidies and Public Provision	47
	Conclusions	47
	Postscript	48
	Summary	49
	Discussion Questions	49
	Exercises	50
2	Microeconomic Tools for Health Economics	55
	Scarcity and the Production Possibilities Frontier	56
	Box 2.1 There's Scarcity and Then There's Real Scarcity	58
	Practice with Supply and Demand	60
	The Demand Curve and Demand Shifters	60
	The Supply Curve and Supply Shifters	61
	Equilibrium	62
	Comparative Statics	62
	Functions and Curves	63
	Linear Functions	63
	Demand Functions	64
	Derived Demand	65
	Consumer Theory: Ideas behind the Demand Curve	65
	Utility	66
	Indifference Curves	67
	Budget Constraints	68
	Consumer Equilibrium	68
	Individual and Market Demands	70
	Elasticities	71
	Production and Market Supply	73
	The Production Function Production Functions	73
	Isocost Curves	74
		77 77
	Cost Minimization or Output Maximization Marginal and Average Cost Curves	78
	The Firm Supply Curve under Perfect Competition	78
	Monopoly and Other Market Structures	82
	Box 2.2 Is Competition Better than Monopoly?	84
	Conclusions	85
	Summary	85
	Discussion Questions	86
	Exercises	86
		50
3		89
	Hypothesis Testing	90

	Difference of Means	91
	The Variance of a Distribution	92
	Standard Error of the Mean	93
	Hypotheses and Inferences	94
	Box 3.1 Do Cell Phones Cause Cancer?—Positive Reports	
	but Inconsistent Data	95
	Regression Analysis	96
	Ordinary Least Squares (OLS) Regressions	96
	A Simple Regression	97
	Estimating Elasticities	98
	Multiple Regression Analysis	99
	Interpreting Regression Coefficients	100
	Box 3.2 Hormone Replacement Therapy—Rigorous Statistics	
	Reveal Surprising Results	101
	Dummy Variables	102
	Statistical Inference in the Sciences and Social Sciences	103
	Conclusions	104
	Summary	104
	Discussion Questions	104
	Exercises	105
4	Economic Efficiency and Cost-Benefit Analysis	109
	Economic Efficiency	110
	Cost-Benefit Analysis: Background	113
	Measuring Benefits and Costs	113
	Risk Equity versus Equality of Marginal Costs per	
	Life Saved	115
	Box 4.1 When Is Preventative Medicine a Good Investment?	116
	Marginal Analysis in CBA	117
	Box 4.2 Cookstoves, Global Warming, Health in Developing	
	Countries, and CBA	118
	Discounting	118
	Box 4.3 Discounting and Global Warming	120
	Risk Adjustment and CBA	121
	Distributional Adjustments	121
	Inflation	121
	Valuing Human Life	121
	Willingness to Pay and Willingness to Accept	122
	Contingent Valuation	122
	How Valuable Is the Last Year of Life?	122
	Cost-Benefit Analyses of Heart Care Treatment	124
	Cost-Effectiveness Analysis	125
	Advantages of CEA	126
	Cost-Utility Analysis, QALYs, and DALYs	126

Co	nte	nts
----	-----	-----

	QALYs Revisited: Praise and Criticism	128
	Are QALYs Consistent with Standard Welfare Economics?	128
	Extra-Welfarism	128
	What People Think	129
	The Ageism Critique	129
	How Are QALYs Used for Evaluation	130
	Conclusions	130
	Summary	131
	Discussion Questions	131
	Exercises	132
	Appendix—Discounting	134
5	Production of Health	137
	The Production Function of Health	138
	The Historical Role of Medicine and Health Care	140
	The Rising Population and the Role of Medicine	140
	What Caused the Mortality Rate Declines? Was It Medicine?	142
	Box 5.1 Tuberculosis and The Magic Mountain	143
	Box 5.2 The Importance of Clean Water	146
	What Lessons Are Learned from the Medical Historian?	146
	The Production Function of Health in the Modern Day	147
	Preliminary Issues	147
	The Contribution of Health Care to Population Health:	
	The Modern Era	148
	Is Health Care Worth It?	149
	Box 5.3 Sulfa: A Drug That Really Made a Difference	149
	On the Effect of Social Health Insurance	150
	Prenatal Care	151
	The World's Pharmacies	.153
	Do Other Measures of Health Care Affect Health?	153
	On the Importance of Lifestyle and Environment Cigarettes, Exercise, and a Good Night's Sleep	153
	The Family as Producer of Health	154 155
	Social Capital and Health	155
	Environmental Pollution	155
	Income and Health	156
	The Role of Schooling	156
	Two Theories about the Role of Schooling	150
	Empirical Studies on the Role of Schooling in Health	157
	Conclusions	157
	Summary	158
	Discussion Questions	150
	Exercises	155

6	The Production, Cost, and Technology of Health Care	161
	Production and the Possibilities for Substitution	162
	Substitution	162
	What Degree of Substitution Is Possible?	164
	Elasticity of Substitution	164
	Box 6.1 Health Care Professionals: Expanding the Possibilities	165
	Estimates for Hospital Care	166
	Costs in Theory and Practice	167
	Deriving the Cost Function	167
	Cost Minimization	168
	Economies of Scale and Scope	169
	Why Would Economies of Scale and Scope Be Important?	169
	Empirical Cost-Function Studies	171
	Difficulties Faced by All Hospital Cost Studies	171
	Modern Results	173
	Summary: Empirical Cost Studies and Economies of Scale	173
	Technical and Allocative Inefficiency	173
	Technical Inefficiency	173
	Allocative Inefficiency	174
	Frontier Analysis	175
	The Uses of Hospital Efficiency Studies	177
	For-Profit versus Nonprofit Hospitals	178
	Efficiency and Hospital Quality	178
	Are Hospital Frontier Efficiency Studies Reliable?	178
	Box 6.2 Should We Close Inefficient Hospitals?	179
	Performance-Based Budgeting	179
	Technological Changes and Costs	179
	Technological Change: Cost Increasing or Decreasing?	180
	Health Care Price Increases When Technological	
	Change Occurs	180
	Box 6.3 Aspirin, the Wonder Drug at a Bargain	181
	Diffusion of New Health Care Technologies	183
	Who Adopts and Why?	183
	Other Factors That May Affect Adoption Rates	183
	Diffusion of Technology and Managed Care	184
	Conclusions	185
	Summary	185
	Discussion Questions	186
	Exercises	186
7	Demand for Health Capital	189
	The Demand for Health	190
	The Consumer as Health Producer	190

•

	Time Spent Producing Health	191
	Box 7.1 Exercise Technology—FitBits or Smartphones?	191
	Labor-Leisure Trade-Offs	192
	Trading Leisure for Wages	193
	Preferences between Leisure and Income	194
	The Investment/Consumption Aspects of Health	195
	Production of Healthy Days	195
	Production of Health and Home Goods	196
	Investment over Time	197
	The Cost of Capital	197
	The Demand for Health Capital	197
	Marginal Efficiency of Investment and Rate of Return	198
	The Decreasing MEI	198
	Changes in Equilibrium: Age, Wage, and Education	199
	Age	199
	Wage Rate	200
	Education	201
	Empirical Analyses Using Grossman's Model	201
	Box 7.2 Rational Addiction	202
	Obesity—The Deterioration of Health Capital	203
	An Economic Treatment of Obesity	206
	Economic Effects	207
	Why Has Obesity Increased?	208
	Conclusions	209
	Summary	210
	Discussion Questions	210
	Exercises	211
8	Demand and Supply of Health Insurance	213
	What Is Insurance?	214
	Insurance versus Social Insurance	215
	Insurance Terminology	215
	Risk and Insurance	216
	Expected Value	216
	Marginal Utility of Wealth and Risk Aversion	217
	Purchasing Insurance	218
	The Demand for Insurance	219
	How Much Insurance?	219
	Changes in Premiums	221
	Changes in Expected Loss	222
	Changes in Wealth	223
	The Supply of Insurance	223
	Competition and Normal Profits	223
	The Case of Moral Hazard	224
		223

N

	Demand for Care and Moral Hazard	226
	Box 8.1 Another Type of Moral Hazard—Health	
	Insurance and Insecticide-Treated Bed Nets	
	in Ghana	228
	Effects of Coinsurance and Deductibles	228
	Health Insurance and the Efficient Allocation of Resources	229
	The Impact of Coinsurance	229
	Box 8.2 Got Insurance? You Still May Pay a Steep	
	Price for Prescriptions	231
	The Demand for Insurance and the Price of Care	233
	The Welfare Loss of Excess Health Insurance	233
	Income Transfer Effects of Insurance	236
	Conclusions	239
	Summary	239
	Discussion Questions	240
	Exercises	240
9	Consumer Choice and Demand	243
	Applying the Standard Budget Constraint Model	245
	Box 9.1 What Happens to Costs When Patients Participate	
	in Medical Decision Making?	245
	The Consumer's Equilibrium	246
	Demand Shifters	247
	Health Status and Demand	249
	Two Additional Demand Shifters—Time and Coinsurance	250
	The Role of Time	250
	The Role of Coinsurance	252
	Issues in Measuring Health Care Demand	254
	Individual and Market Demand Functions	255
	Measurement and Definitions	255
	Differences in the Study Populations	255
	Data Sources	256
	Experimental and Nonexperimental Data	256
	Box 9.2 Oregon's Health Insurance Experiment	256
	Empirical Measurements of Demand Elasticities	257
	Price Elasticities	257
	Individual Income Elasticities	259
	Income Elasticities across Countries	259
	Insurance Elasticities	260
	Impacts of Insurance on Aggregate Expenditures	262
	Other Variables Affecting Demand	262
	Ethnicity and Gender	262
	Box 9.3 Disparities in Health Care: A National Priority	263
	Urban versus Rural	264

	Education	264
	Age, Health Status, and Uncertainty	264
	Conclusions	265
	Box 9.4 How Much Will That Hospitalization Cost Me?	266
	Summary	266
	Discussion Questions	267
	Exercises	268
10	Asymmetric Information and Agency	271
	Overview of Information Issues	272
	Asymmetric Information	273
	On the Extent of Information Problems in the Health Sector Asymmetric Information in the Used-Car Market:	273
	The Lemons Principle	274
	Application of the Lemons Principle: Health Insurance	276
	Inefficiencies of Adverse Selection	277
	The Affordable Care Act and Adverse Selection	278
	Experience Rating and Adverse Selection	279
	The Agency Relationship	280
	Agency and Health Care	280
	Box 10.1 What Happens When the Patient Is	
	a Medical Expert?	280
	Consumer Information, Prices, and Quality	282
	Consumer Information and Prices	282
	Consumer Information and Quality	283
	Other Quality Indicators	284
	Box 10.2 Quality Rankings and Health Care Outcomes	285
	Conclusions	286
	Summary	287
	Discussion Questions	288
	Exercises	289
11	The Organization of Health Insurance Markets	291
	Loading Costs and the Behavior of Insurance Firms	292
	Impacts of Loading Costs	292
	Insurance for Heart Attacks and Hangnails	294
	Loading Costs and the Uninsured	294
	Employer Provision of Health Insurance: Who Pays?	295
	Box 11.1 Employers Shift More Health Care Costs to	
	Employees—How You Feel Depends on Where You Sit	297
	Spousal Coverage: Who Pays?	297
	How the Tax System Influences Health Insurance Demand	299
	Who Pays the Compensating Differentials?—Empirical Tests	301
	Other Impacts of Employer Provision of Health Insurance	302

.

	Box 11.2 For Many with Pre-Existing Conditions, Obamacare's	
	Flaws are Only a Small Price to Pay	303
	Employer-Based Health Insurance and Labor Supply	304
	Health Insurance and Retirement	304
	Health Insurance and Mobility	305
	The Market for Insurance	306
	The Market for Private Insurance	306
	Insurance Practices	308
	Health Insurance Markets Since the 1980s	309
	The Uninsured: An Analytical Framework	309
	Box 11.3 Counting the Uninsured	310
	Box 11.4 Why Being Insured Matters	311
	The Working Uninsured	311
	The Impacts of Mandated Coverage	312
	Impacts of the Affordable Care Act on the Uninsured	314
	Elements of the ACA	314
	Evidence on the Impact of the ACA on the Uninsured	314
	Conclusions	316
	Summary	317
	Discussion Questions	317
	Exercises	318
12	Managed Care	321
	What Is the Organizational Structure?	323
	What Are the Economic Characteristics?	324
	The Emergence of Managed Care Plans	325
	Employer-Sponsored Managed Care	326
	Medicaid and Medicare Managed Care Plans	328
	Managed Care Contracts with Physicians	328
	Managed Care Contracts with Hospitals	329
	Development and Growth of Managed Care—Why Did It	
	Take So Long?	330
	Federal Policy and the Growth of Managed Care	330
	The Economics of Managed Care	331
	Modeling Managed Care	331
	Modeling Individual HMOs	332
	How Much Care?	332
	What Types of Care?	333
	Framework for Prediction	334
	Where Managed Care Differs from FFS—Dumping, Creaming,	
	and Skimping	334
	Equilibrium and Adverse Selection in a Market with HMOs	335
	How Does Managed Care Differ?—Empirical Results	337
	Methodological Issues—Selection Bias and Quality of Care	337

	Comparative Utilization and Costs	338
	The RAND Study—A Randomized Experiment	338
	More Recent Evidence	339
	Box 12.1 What Do HMOs Actually Do?	340
	Growth in Spending	341
	Competitive Effects	342
	Theoretical Issues	342
	Managed Care Competition in Hospital Markets	344
	Managed Care Competition in Insurance Markets	345
	Managed Care and Technological Change	345
	The Managed Care Backlash	346
	Box 12.2 Pay-for-Performance	348
	Accountable Care Organizations (ACOs)	349
	Managed Care and the Affordable Care Act	350
	Conclusions	351
	Summary	351
	Discussion Questions	353
	Exercises	353
13	Nonprofit Firms	357
	An Introduction to Nonprofits	358
	Why Nonprofits Exist and Why They Are Prevalent in Health Care	358
	Nonprofits as Providers of Unmet Demands for Public Goods	359
	The Public Good–Private Good Aspect of Donations	360
	Relevance to Health Care Markets	361
	Nonprofits as a Response to Contract Failure	362
	Applications of Contract Failure to Health Care	362
	Financial Matters and the Nonprofit	363
	Summary of the Reasons for the Prevalence of Nonprofits	363
	Models of Nonprofit Hospital Behavior	363
	The Quality–Quantity Nonprofit Theory	363
	The Profit-Deviating Nonprofit Hospital	365
	The Hospital as a Physicians' Cooperative	367
	Maximizing Net Revenue per Physician	367
	A Comparison of the Quantity–Quality and the Physicians'	
	Cooperative Theories	368
	Competition from Home Care and Outpatient Care	370
	The Evidence: Do Nonprofit Hospitals Differ from	
	For-Profit Hospitals?	371
	Summary of Models of Hospital Behavior	372
	What Causes Conversion of Nonprofits into For-Profits?	372
	The Relative Efficiency of Nonprofits versus For-Profits	373
	Are Nonprofit Health Care Firms Less Technically or Allocatively	
	Efficient?—Hospital and Nursing Home Studies	373

Box 13.1 Why Are Registered Nurses' Wages Higher in	
Nonprofit Nursing Homes?	374
Conclusions	374
Summary	374
-	375
Exercises	376
Hospitals and Long-Term Care	377
Background and Overview of Hospitals	378
History	379
Organization	380
Regulation and Accreditation	381
Hospital Utilization and Costs	381
Competition and Costs	383
Box 14.1 Game Theory and the Medical Arms Race (MAR)	383
Closures, Mergers, and Restructuring	387
Box 14.2 Hospitals and Airlines: What Are the Lessons?	388
Quality of Care	389
Nursing Homes	390
Background and Costs	390
Quality of Care	391
Excess Demand	392
Financing Long-Term Care	394
Hospice, Home Health, and Informal Care	395
Conclusions	396
Summary	397
-	398
Exercises	398
The Physician's Practice	401
Physician Agency and Supplier-Induced Demand (SID)	402
Modeling Supplier-Induced Demand	402
The Supply and Demand Model	403
Do Physicians Respond to Profit Incentives?	403
The Target Income Hypothesis	405
Box 15.1 SID and Target Income: A Physician's Perspective	405
The McGuire and Pauly Model	406
What Do the Data Say about Supplier-Induced Demand?	409
Box 15.2 Supplier-Induced Pregnancies	409
A Marketplace Approach	410
Conclusion on SID	411
Small Area Variations (SAV)	411
Contributions to These Variations	412
Education, Feedback, and Surveillance	413
	Nonprofit Nursing Homes? Conclusions Summary Discussion Questions Exercises Hospitals and Long-Term Care Background and Overview of Hospitals History Organization Regulation and Accreditation Hospital Utilization and Costs Competition and Accreditation Hospital Utilization and Costs Competition and Costs Box 14.1 Game Theory and the Medical Arms Race (MAR) Closures, Mergers, and Restructuring Box 14.2 Hospitals and Airlines: What Are the Lessons? Quality of Care Nursing Homes Background and Costs Quality of Care Excess Demand Financing Long-Term Care Hospice, Home Health, and Informal Care Conclusions Summary Discussion Questions Exercises The Physician's Practice Physician Agency and Supplier-Induced Demand (SID) Modeling Supplier-Induced Demand The Supply and Demand Model Do Physicians Respond to Profit Incentives? The Target Income Hypothesis Box 15.1 SID and Target Income: A Physician's Perspective The McGuire and Pauly Model What Do the Data Say about Supplier-Induced Demand? Box 15.2 Supplier-Induced Pregnancies A Marketplace Approach Conclusion on SID Small Area Variations (SAV) Contributions to These Variations

	The Demand Side	413
	The Supply Side	414
	Issues that Affect Both SID and SAV	414
	Malpractice	414
	Paying for Outcomes	415
	Box 15.3 Clinical Decision Making and Patient Preferences	415
	Conclusions	416
	Summary	417
	Discussion Questions	417
	Exercises	418
16	Health Care Labor Markets and Professional Training	419
	The Demand for and Supply of Health Care Labor	420
	Production Functions and Isoquants	420
	Marginal Productivity of Labor	421
	Factor Substitution and Labor Demand	423
	The Supply of Labor	424
	Factor Productivity and Substitution among Factors	424
	Measurement of Physician Productivity	425
	The Efficient Utilization of Physician Assistants:	
	Substitution among Inputs	425
	Health Care Labor Supply and the Meaning of Shortages	426
	Box 16.1 Recent Productivity Studies	426
	Availability of Physicians	427
	Economic Definitions of Shortages of Health Professionals	428
	Box 16.2 Dealing with Shortages of Primary Care Physicians	428
	The Role of Monopsony Power: Shortages of Registered Nurses	431
	Medical Education Issues and the Question of Control	433
	Sources of Medical School Revenues	434
	Teaching Hospitals, Medical Schools, and Joint Production	434
	Foreign Medical School Graduates	435
	The Control of Medical Education	436
	Control over Entry	436
	Licensure and Monopoly Rents	438
	Licensure and Quality	440
	Other Physician Labor Issues	441
	Specialization	441
	Private Practice or Employed	442
	Physician Income by Gender—The Increasing Role of Women	443
	Box 16.3 The \$16,819 Unexplained Gender Income Gap	444
	Conclusions	444
	Summary	445
	Discussion Questions	446
	Exercises	446

k

17	The Pharmaceutical Industry	449
	Box 17.1 Patents and Media Attention	450
	Structure and Regulation	452
	Box 17.2 Martin Shkreli and Valeant Pharmaceuticals	452
	Competition	453
	Barriers to Entry	454
	Box 17.3 Direct-to-Consumer (DTC) Advertising	455
	Regulation	456
	The Production of Health and Substitutability	457
	Least-Cost Production	459
	Insurance and Substitutability	459
	Technological Change	461
	Drug Pricing and Profits	462
	Monopoly Pricing	462
	Price Discrimination	463
	Monopsony Pricing and Price Controls	464
	Competition and Generic Entry	465
	Research and Development (R&D) and Innovation	465
	Investment Decisions	466
	R&D Spending	467
	Firm Size and Innovation	468
	Prices, Price Regulation, and Innovation	468
	Cost Containment	469
	Copayments	469
	Generic Substitutes	471
	Drug Formularies	471
	Reference Pricing	472
	New Drugs and Health Care Spending	472
	The ACA and the Pharmaceutical Industry	473
	Conclusions	474
	Summary	474
	Discussion Questions	475
	Exercises	475
18	Equity, Efficiency, and Need	479
	Efficiency and Competitive Markets	480
	The Concept of Pareto Efficiency (Optimality)	481
	Trading along the Budget Line	482
	The Competitive Equilibrium	482
	The First Fundamental Theorem of Welfare Economics	483
	Redistribution of the Endowment	484
	Price Discrimination	485
	Trade-Offs between Equity and Efficiency	485
	Deviations from the Competitive Model in the Health Care Sector	486

The Assumptions under Perfect Competition	486
Promoting Competition in the Health Care Sector	487
The Theorem of the Second Best	487
An Economic Efficiency Rationale for Social Health Insurance	488
Need and Need-Based Distributions	490
Health Care Needs and the Social Welfare Function	491
Box 18.1 The Extra-Welfarist Critique	493
Box 18.2 The "Fair Innings" Proposal	495
Norman Daniels's Concept of Health Care Need	495
Economic Criticisms of Need-Based Distributions	496
Horizontal Equity and Need	497
Income Inequality	499
Schooling and Income Inequality	500
Theories of Social Justice	501
Utilitarianism	501
Rawls and Justice as Fairness	502
Liberalism, Classical, and Modern	503
Conclusions	504
Summary	505
Discussion Questions	505
Exercises	506
19 Government Intervention in Health Care Markets	507
Economic Rationale for Government Intervention	508
Monopoly Power	508
Public Goods	510
Externalities	512
Other Rationales for Government Intervention	512
Forms of Government Intervention	513
Commodity Taxes and Subsidies	513
Public Provision	515
Box 19.1 Is There a Case for a Sugar-Sweetened Soda	
or "Junk Food" Tax?	515
Transfer Programs	517
Regulation	517
Government involvement in Health Care Markets	518
Box 19.2 What Is HIPAA?	518
Support of Hospitals	519
Department of Veterans Affairs and Department of Defer	nse 519
Food and Drug Administration	520
Mandated Health Insurance Benefits	520
Tax Policy	520
Public Health	521
Other Government Programs	521
Health Sector Regulation and the Prospective Payment Sy	ystem 522

Co	nte	nts
----	-----	-----

	Description of PPS	524
	The Theory of Yardstick Competition and DRGs	526
	Government Failure	529
	Who Does the Regulator Represent?	529
	Conclusions	531
	Summary	532
	Discussion Questions	532
	Exercises	533
20	Social Insurance	537
	Social Insurance Policies and Social Programs	538
	Program Features	539
	Box 20.1 Increased Longevity Favors the Rich in Social Security	540
	Historical Roots of Social Insurance	541
	European Beginnings	541
	Early Experience in the United States	542
	The Establishment of Medicare and Medicaid	542
	The Affordable Care Act (ACA) of 2010	543
	Medicare and Medicaid in the United States	544
	Medicare	544
	Part C—Medicare Managed Care	545
	Part D—Prescription Drug Insurance	546
	Medicaid	550
	Medicaid Eligibility	551
	Box 20.2 Oregon Medicaid's Doctor-Assisted Suicide—	
	18 Years Later	553
	The Medicaid–Medicare Relationship	554
	Medicare and Medicaid: Conflicting Incentives	
	for Long-Term Care	555
	Children's Health Insurance Program—CHIP	556
	Public Insurance and Health	556
	The Effects of Medicare and Medicaid	559 559
	Costs and Inflation	563
	Health Status	564
	Medicare: Recent Changes and Future Prospects	565
	Conclusions	565
	Summary Discussion Questions	567
	Discussion Questions Exercises	567
	Exercises	
21	Comparative Health Care Systems	569
	Contemporary Health Care Systems	570
	A Typology of Contemporary Health Care Systems	570
	The United Kingdom—The National Health Service	576
	The National Health Service	576

	A Model of Rationed Health Care and Private Markets	577
	Box 21.1 "Jump the Queue for Cataract Operations	
	by Paying Yourself"	578
	Box 21.2 How Your Health Visitor Can Help	578
	China—An Emerging System	580
	The Canadian Health Care System	584
	Background	584
	Physician Fees and Quantity	586
	Why Are Fees and Hospital Costs Lower in Canada?	587
	Administrative Costs	587
	A Comparison	588
	Different Systems: The Public's Evaluation	592
	Box 21.3 "Someone Else Needed It Before I Did"	592
	Differences in Health Care Spending across Countries	593
	A Model of Health Expenditure Shares	593
	Conclusions	596
	Summary	596
	Discussion Questions	597
	Exercises	598
22	Health System Reform	601
	Goals of Reform	602
	Basic Issues in Reform	603
	The Costs of Universal Coverage	604
	Ensuring Access to Care	605
	Employer versus Individual Mandates	606
	Separation of Health Insurance from Employment	607
	Single-Payer versus Multiple Insurers	607
	Quality of Care	608
	Box 22.1 Preventive Care and Cost-Effectiveness Analyses	609
	The Affordable Care Act (ACA) of 2010	610
	The "Three-Legged Stool"	610
	The ACA—Basics	611
	Economic Analysis of the ACA	612
	Competitive Strategies in the Post-ACA Era	614
	Development of Alternative Delivery Systems	615
	Consumer-Directed Health Plans and Health Savings Accounts	616
	Other Market Reforms	617
	Graphical Representation of the Competitive Approach	617
	ACA Outcomes after Six Years	618
	Health Care Access	618
	Box 22.2 Has the ACA Improved Access to Care? Health Care Costs	620
	The ACA and Quality	621
	Employment Effects	622
	Employment Ellects	623

	Adverse Selection under the ACA	625
	Meeting Reform Goals	625
	Creating a Safety Net	626
	Cost Containment	626
	Quality, High-Value Care	626
	Choice for Patients and Providers	626
	Ease in Administration	626
	Conclusions	626
	Summary	627
	Discussion Questions	628
	Exercises	629
23	The Health Economics of Bads	633
	An Introduction to Bads	634
	Box 23.1 Who Smokes and Who Drinks?	
	Cultures and Behaviors	634
	Models of Addiction	637
	Imperfectly Rational Addiction Models	637
	Myopic Addiction Models	638
	Rational Addiction	638
	Rationales for Public Intervention	640
	Other Interventions	641
	Advertising Restrictions on Cigarettes and Alcohol	641
	Box 23.2 Can Advertising Lead Patients Astray? The Case	
	of Medical Quackery	642
	The Possible Effects of Brand Switching	643
	Increased Demand or Brand Switching?	644
	Advertising and Alcohol Consumption	645
	Excise Taxes and Consumption of Cigarettes and Alcohol	645
	The Consumption-Reducing Effects of Excise Taxes in Theory	645
	Excise Taxes and Cigarette Consumption in Practice	646
	Box 23.3 Mind If I Smoke?	647
	Excise Taxes and Alcohol Consumption	649
	Conclusions	651
	Summary	651
	Discussion Questions	652
	Exercises	653
24	The Economics of Social Capital and Health	655
	What Is Social Capital?	656
	How Do People Choose Social Capital?	656
	The Individual Case	656
	Community Social Capital	658
	How Could Increments to Social Capital Improve Health?	658
	Empirical Tests of Social Capital and Health	659

Pursuing Causality	662
Natural Experiments	662
Testing the Social Capital Effect for Causality	662
Elements of Trust	663
The Geography of Trust and of Social Capital	664
Social Capital and Risky Choices	665
Social Capital and Smoking	666
Conclusions	667
Summary	667
Discussion Questions	668
Exercises	668
Glossary	669 680 728
References	
Author Index	
Subject Index	731