

Summary of Grossman (1972)

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What is the broader motivation of this paper?

Grossman's 'On the Concept of Health Capital and the Demand for Health' aims to model demand for what he terms "good health". This paper, broadly speaking, attempts to untangle the consumer demand for good health from the demand for medical services at large.

What is the precise research question?

Specifically, Grossman attempts to understand how the shadow price of good health affects consumer demand when consumers have different characteristics like educational attainment or wealth differences. Further, Grossman's paper seeks to ascertain willingness to trade capital stock for health stock for individuals. The relationship between market stock and health stock is paramount, with Grossman asserting that given health investment reduces sick days, it creates opportunity for more market and household capital stock.

Why would a policy maker care?

A policy maker would care because Grossman shows how different characteristics of consumers correlates to health stock demand. Further, Grossman untangles the demand for health from the demand for medical care, a distinction which could be very useful for policy makers in understanding how to allocate resources for health care and health promotion.

Why would an economist care?

An economist would be interested because Grossman shows returns to education for health demand, shows health capital by wealth strata (basis), and shows optimal investment of time to maintain consumer utility. Any additional understanding of a consumer's demand for a good is useful for economists, so Grossman's contribution to the literature is important for that reason. He also

aided in the development of health demand modeling, which was, ostensibly, of huge importance to economists of the time.

What do we learn about economics?

We learn that the demand for health is downward sloping due to the marginal productivity of health capital declining. We also learn that wealthier consumers demand more health and more medical care, or that health demand is positively correlated with the wage rate. Further, those with higher levels of education demand more health stock, but not more healthcare.