

- Questions
- Scarcity - Do you have finite resources (B.C.), more prominent in health distress?
  - Can you lower your health expenditure to zero? The main difference with other goods.
  - Health care is very precious good. The price of a precious good should be high, then why we are unhappy with increasing price?
  - Should government then spend all out? Aging issue in world; move to tertiary care and palliative care (so composition change happening) → most country's health expense is increasing that's why  
but is it correct?  
Palliative vs. Primary  
high cost few vs low cost many

## Class 1: Introduction to Health Economics

### Meaning and Scope of Health Economics

→ income, time (individual)  
Budget (government).

Health economics is a branch of economics that studies how scarce resources are allocated for the production, distribution, and consumption of health and healthcare services. Like all branches of economics, it is concerned with scarcity, choice, opportunity cost, efficiency, and welfare. However, it applies these principles specifically to the health sector. Health economics examines how individuals demand healthcare services, how providers supply them, how healthcare is financed, and what role the government should play in ensuring access and efficiency. It also analyses broader issues such as inequality in health outcomes, insurance markets, public health policies, and the relationship between health and economic development. Thus, health economics connects microeconomic behavior with macroeconomic performance and public policy.

Three players → Individuals  
Market  
Government

### Difference Between Health and Healthcare

A fundamental distinction in health economics is between health and healthcare. Health refers to a state of physical, mental, and social well-being. It is an outcome that individuals value because it improves quality of life and enables them to function productively. Healthcare, on the other hand, refers to medical services such as doctor consultations, hospital treatment, medicines, and preventive services. Healthcare is an input used to produce health, but it does not automatically guarantee good health. For example, a person may receive treatment but still suffer from chronic illness. Similarly, good health may result from nutrition, sanitation, education, and lifestyle choices even without frequent medical care. Therefore, in economic analysis, healthcare is treated as a means to achieve the broader objective of health.

Bhanwar

## Importance of Health in Economic Development

Health plays a crucial role in economic development. A healthy population is more productive, works more efficiently, and contributes more effectively to national income. Good health reduces absenteeism, increases labour supply, and enhances cognitive ability. It also improves educational outcomes, since healthy children are better able to attend school and learn. At the macro level, improvements in life expectancy and reductions in mortality contribute to economic growth. Health is therefore considered both a consumption good and an investment good. As a consumption good, it provides satisfaction and well-being. As an investment good, it increases future earning capacity and productivity. Because of this dual role, health is central to human capital formation and long-term development.

*Human Capital approach  
and factor productivity  
(micro)*

## Special Characteristics of Healthcare Markets

Healthcare markets differ significantly from ordinary markets for goods and services. These differences create unique economic problems and justify special analysis.

One major feature is uncertainty. Illness occurs unpredictably, and individuals do not know when they will require medical care or how expensive treatment will be. This uncertainty creates financial risk, which leads to the development of health insurance markets. Insurance allows individuals to pool risk and protect themselves against large medical expenses.

Another important characteristic is information asymmetry. In most markets, buyers and sellers have relatively similar information about the product. However, in healthcare, doctors possess much more knowledge than patients about diagnosis and treatment. Patients rely heavily on doctors' advice, which creates a principal-agent relationship. Because of this information imbalance, there is the possibility of supplier-induced demand, where providers may influence the quantity of services consumed.

*confidence gap*

SIR  
Model

Healthcare also generates externalities. An externality occurs when the actions of one individual affect the well-being of others. For example, vaccination protects not only the individual receiving it but also others in the community by reducing the spread of disease. Because individuals may not consider these social benefits when making decisions, private markets tend to underprovide such services. This justifies government intervention in public health programs.

Finally, equity concerns are particularly strong in healthcare. Access to medical care is often considered a basic human need rather than a luxury. If healthcare were allocated purely on the basis of ability to pay, poor individuals might be excluded from essential services. Therefore, governments intervene to ensure fairness and universal access.

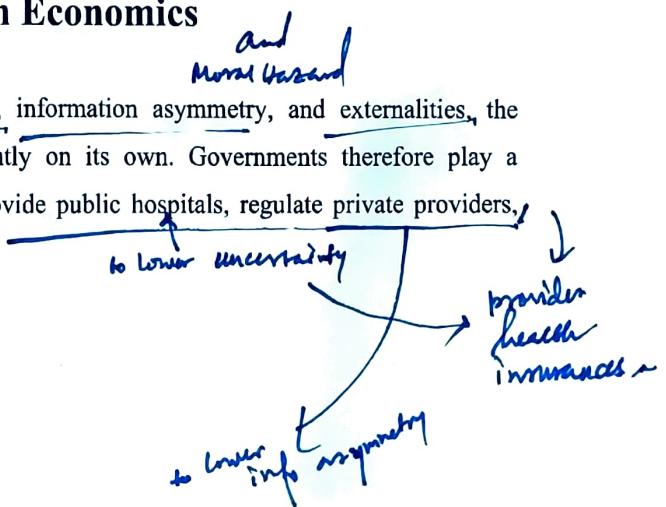
## Health as Human Capital

Modern health economics treats health as a form of human capital. According to the human capital theory developed by economists such as Gary Becker, investments in education and health increase productivity and earnings. Building on this idea, Michael Grossman developed a formal model in which health is viewed as a stock of capital that produces healthy time.

In the Grossman model, individuals are both consumers and producers of health. Health capital depreciates over time due to ageing and illness. However, individuals can invest in health through medical care, exercise, nutrition, and healthy lifestyles. The optimal level of health is determined by balancing the costs of investment against the benefits of improved productivity and well-being. This model provides the theoretical foundation for analyzing the demand for health and healthcare in modern economics.

## Role of Government in Health Economics

Due to market failures such as uncertainty, information asymmetry, and externalities, the healthcare market does not function efficiently on its own. Governments therefore play a significant role in the health sector. They provide public hospitals, regulate private providers,



## Externalities

implement vaccination programs, and design health insurance schemes. Government intervention is also necessary to ensure equity in access to healthcare services. In many developing countries, high out-of-pocket expenditure forces households into poverty due to medical costs. Public provision and financial protection policies are introduced to address such issues. Thus, government involvement is a central feature of health economics.

## **Micro and Macro Dimensions of Health Economics**

- Health economics operates at both microeconomic and macroeconomic levels. At the micro level, it studies individual and household behavior, such as demand for healthcare, insurance decisions, moral hazard, and adverse selection. It also examines the behavior of doctors, hospitals, and pharmaceutical firms. At the macro level, health economics analyses public health expenditure, health inequality, demographic transition, ageing populations, and the relationship between health and economic growth. These two levels are interconnected, as individual health outcomes collectively influence national development.

## **Conclusion**

Health economics is a vital field that applies economic principles to one of the most important aspects of human life—health. Unlike ordinary markets, healthcare markets are characterized by uncertainty, information asymmetry, externalities, and strong equity concerns. Health is both a source of personal satisfaction and a form of investment that enhances productivity and economic growth. Because of these unique features, government intervention becomes necessary to ensure efficiency and fairness. Understanding health economics helps explain how societies allocate limited resources to improve health outcomes and promote overall development.

more specifically three players - individual, govt., market