

# Module 0: Introduction

## Primer on U.S. Health Care

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Econ 372

# Health Care and Economics (in General)

Lots of interesting economic issues in health care (not all unique to the U.S.):

1. Extremely heterogeneous products
2. Asymmetric information between patients and physicians
3. Unobservable quality (experience good)
4. Unpredictable need (inability to shop in many cases)
5. Distortion of incentives due to insurance
6. Adverse selection (asymmetric information between patients and insurers)

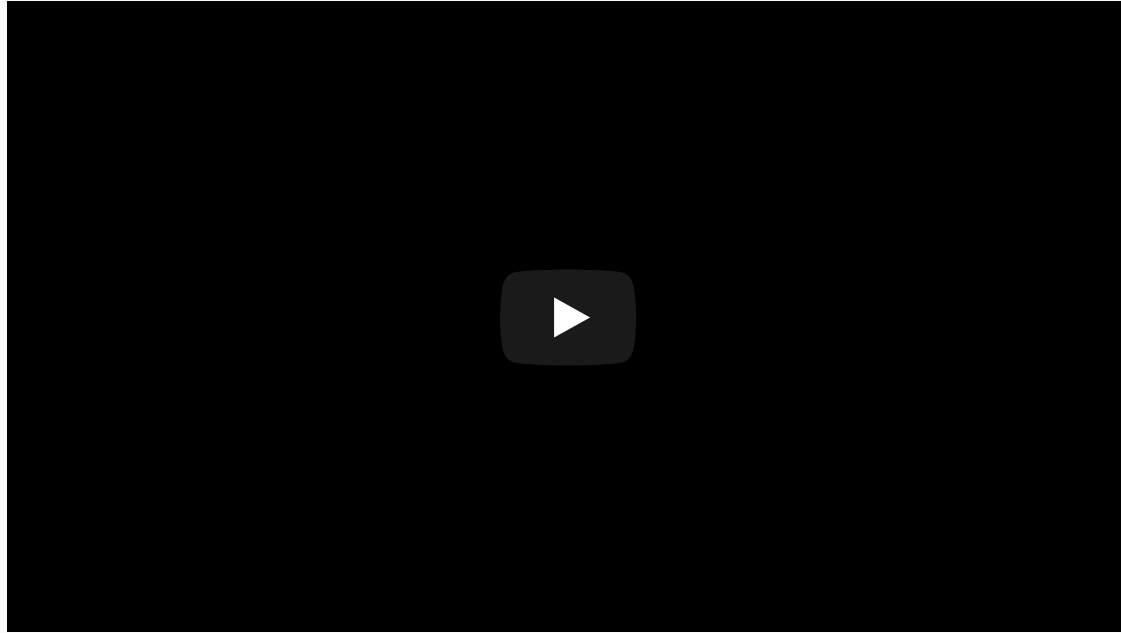
# How is the U.S. unique

- These factors exist in other markets and in other countries, but...
- Health care is unique in the combination of these issues
- U.S. is unique in the extent of these issues in health care (policy problems)

# Why?

Can you identify one or two reasons for our high prices/expenditures? Keep in mind we don't have a particularly strong quality advantage either.

# Why is spending so high?



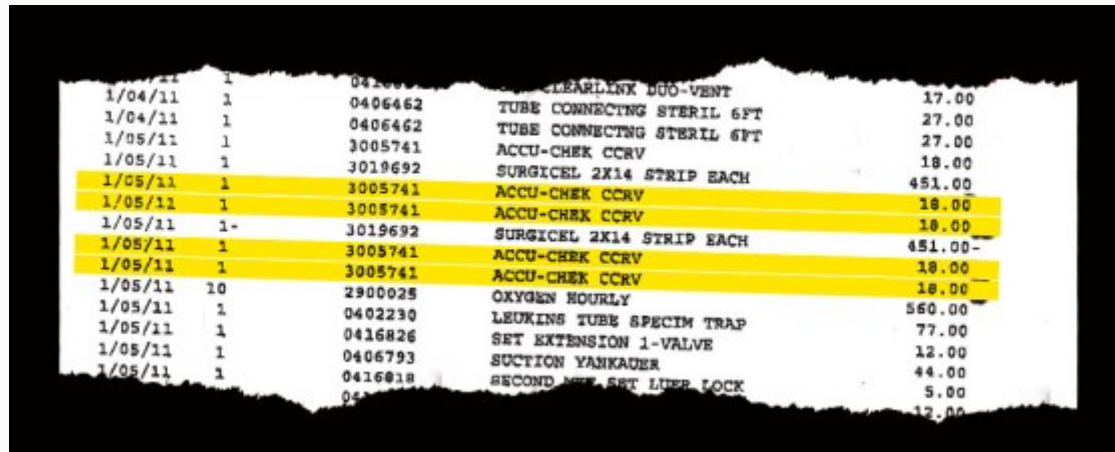
# Fragmentation

A common criticism of U.S. health care is that it is extremely fragmented:

- different ways to get insurance
- mix of providers and reliance on referrals
- separate billing (for the most part)

# Complicated bills

Our fragmented system has led to a ridiculously complex and convoluted billing process



|         |    |         |                            |        |
|---------|----|---------|----------------------------|--------|
| 1/04/11 | 1  | 0416826 | LEUKINK TUBE SPECIM TRAP   | 77.00  |
| 1/04/11 | 1  | 0406462 | TUBE CONNECTING STERIL 6FT | 27.00  |
| 1/04/11 | 1  | 0406462 | TUBE CONNECTING STERIL 6FT | 27.00  |
| 1/05/11 | 1  | 3005741 | ACCU-CHEK CCRV             | 18.00  |
| 1/05/11 | 1  | 3019692 | SURGICEL 2X14 STRIP EACH   | 451.00 |
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| 1/05/11 | 1- | 3019692 | SURGICEL 2X14 STRIP EACH   | 451.00 |
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| 1/05/11 | 1  | 3005741 | ACCU-CHEK CCRV             | 18.00  |
| 1/05/11 | 10 | 2900025 | OXYGEN HOURLY              | 560.00 |
| 1/05/11 | 1  | 0402230 | LEUKINK TUBE SPECIM TRAP   | 77.00  |
| 1/05/11 | 1  | 0416826 | SET EXTENSION 1-VALVE      | 12.00  |
| 1/05/11 | 1  | 0406793 | SUCTION YANKAER            | 44.00  |
| 1/05/11 | 1  | 0416818 | SECOND SET SET LUER LOCK   | 5.00   |
| 1/05/11 | 1  | 0416826 | LEUKINK TUBE SPECIM TRAP   | 77.00  |

Brill, Steven. 2013. "Bitter Pill: Why Medical Bills are Killing Us." \*Time Magazine\*.

# Complicated bills

- \$18 for accu-chek test strip (in 2011)
- Can get 50 for \$11.44 on Amazon

Note: this \$18 is a charge, which is different from price or cost...much more on this later



# What did we learn?

1. We spend *LOTS* on health care, the most in the world by far
2. Definitely not the highest quality health care system in the world
3. Many reasons:
  - Standard health economics issues
  - Fragmented system
  - Market-based system but without real competition
  - Policy failures
4. What's the solution?

Take this class!!