

# **Economics of Health Care**

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# Welcome

Health care is a vital component of our society, and it is essential to understand the economic principles that underlie this complex system. Health care economics is the study of how resources are allocated to produce, distribute, and consume health care goods and services. It encompasses a wide range of topics, including the behavior of health care providers, the role of insurance and government policy, and the impact of health care on the economy as a whole.

This book is intended to offer an introduction to the study of health care economics. It covers key topics such as health insurance and health care financing, physician behaviors, physician and hospital pricing, and prescription drug markets. Within each topic, I present specific theoretical models and discuss current health policy in the context of those models. The material is intended for advanced undergraduate or masters students with at least some exposure to intermediate-level microeconomics.

Unfortunately, I can't cover everything in one introductory book – nor am I equipped to do so. One area that I've intentionally excluded from this book is that of comparative health systems or any sort of international view of health care. I'll use some basic international comparisons in the introduction, but otherwise this is a very U.S.-centric health economics book. Those interested in international comparisons can find some great information from the [Peterson-KFF Health System Tracker](#) and the [Commonwealth Fund](#), among many other excellent resources. I've also excluded any discussion of health care labor markets, such as nurse wages, physician location and specialty selection, etc.

From this book, readers should be able to:

1. Explain the structure of the U.S. health care system, its main components, and its history
2. Model adverse selection in health insurance, examine its effects on health insurance markets, and support your arguments with existing data
3. Explain the physician agency problem, use a model of physician agency to examine financial incentives in health care, and summarize empirical evidence on the presence of physician agency
4. Describe hospital pricing, negotiation with insurers, and explain (qualitatively and quantitatively) the differences between charges and prices
5. Analyze hospital data in a real-life setting and predict effects of real-life policies