



## Unit 1: What can health economics teach us ?



### 1. Applying economics to health care

- Hello, I'm Sherry Glied. I'm an American health care economist I am a researcher at NYU, Dean at NYU School of Public Service and I've worked for the US government. I was Assistant Secretary for Planning and Evaluation under President Obama. As a health economist I helped to develop and implement the ACA the US health care reform legislation. My goal today is to tell you about health economics and its usefulness for policymakers, managers, clinicians, and so on. Very simply health economics applies the discipline of economics to health care. Let me unpack that from the beginning. Health economists study a very broad range of issues including ones you might not expect. For example some important health economics work asks why some people are healthy and others are not. Why do epidemics sometimes peter out and sometimes peak? This pertains not only to epidemiology but to health economics as well. How should doctors and hospitals be paid? With a fee for each service they provide? Or with a global budget for all services? How to draw up the health care system? Should hospitals and primary care doctors exist separately or in networks? And the health insurance mechanism? How should it be financed and coverage distributed? Why isn't the system financed the way economists think it should be? Why not listen to us? We try to get to the bottom of this by looking at health care through a political economy lens. We ask familiar questions like Why spend so much on health care? And we study the cost-effectiveness of drug technologies and other innovations. Health economics covers a broad range of questions. To each of these questions we bring the discipline of economics. What is that discipline? Many people think economics is all about money but that's too narrow a view of what economists study and do. Rather, economics is a lens that considers problems in terms of how people and societies allocate scarce resources among competing or alternative uses. "How do people allocate scarce resources?" Now, all of us no matter how rich, face a scarcity of resources. For many people the most evident scarcity is lack of money. They need financial resources in order to pay for daily-life expenses. But all of us especially you, watching this video face a scarcity of time. There's not enough hours in the day. And many people face not only scarcities of money and time but they face a scarcity in the energy and the capacity to think about certain problems A growing body of economic literature called **Behavioral Economics** focuses on the problems of scarcity of the ability to make decisions and consider alternatives. As you will see in this course, this economic lens on health problems is extraordinarily powerful. I think and it's my experience that it can illustrate in very new and very useful ways some of my questions from earlier. Let's start with a familiar example. Everyone claims in all countries of the world that health is most important to them more important than money, etc. With health, you have everything. But in fact no one behaves that way although we say it a lot. For example, none of us spend all of our time exercising. Almost every one of us indulges in unhealthy food. People who know the risks of smoking continue to do so. Even I, once in a while cross the street against the light even though this goes against my stated preference that good health is best. Why is that? Economics offers interesting answers that you will learn in this course. Take another example a complicated one. In most of economics when people can make their own choices follow their own preferences it works very well. Competitive markets with individuals maximizing their own utility which is the economic term everybody out for themselves working for their own interests actually creates a functional economy that gets people what they need.





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- ➔ But that principle can have catastrophic consequences in health care. It can make insurance markets implode so that nobody can get coverage. It can leave many people much worse off. It's possible to have nobody as well off as they would be if we had well-developed regulations to help the market function. In this course you'll learn more about economics in health care and you'll start to understand the puzzles I've mentioned and others.
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