



Unit 1: What can health economics teach us ?



- Hello. I'm Lise Rochaix, economics professor at Panthéon-Sorbonne University and director of the Hospinnomics health economics research chair. In this video I will aim to answer two questions: What is the nature of health care? And Can economic analysis be applied to this field? These questions have influenced the development of health economics. The first question was put forward in 1974 by Bob Evans, a Canadian health care economist, as follows: Is there a difference, in nature or degree, between the consumption of standard services and health care? This raises questions about the specific features of health care. Chief among these features is a phenomenon called information asymmetry which leads patients to allow health care providers to choose treatments for them. This asymmetry raises questions on the role of the patient both in health production and health care consumption, and challenges the very existence of a demand function independent of the health care supply function, when supply comes from health care providers. Furthermore, it raises questions about the relevance of using traditional market economic analysis tools where a demand function and a supply function usually interact. Other specific features have been highlighted: The level of uncertainty regarding diagnoses, patients' responses to treatment, and the quality of care provided. The health care market is thus subject to what economists call market failure: situations in which the market does not stabilize on its own and a third-party intervention, usually by the State, is needed. These market failures exist in other fields, such as the environment and education. Over time, in response to Bob Evans' initial question, economists concluded there was no fundamental difference between health care and other goods and services, so no difference in nature. There is, rather, a difference in degree, since the health care market combines multiple market failures, making the application of economic analysis all the more difficult and all the more interesting. Health care is therefore like a quasi-market, combining both competition and regulation. Health economics was developed around three points of analysis: the first is health care production, i.e. the relationship between the health status of the population and the broader context: pollution and epidemics, but also investment in health, individual investment behaviors such as prevention, or divestment, e.g. tobacco divestment. The second point of analysis is health insurance production. What are the links between compulsory health insurance and voluntary private insurance? What are the terms of insurance? Should people have to pay deductibles out of pocket? The third point is the production of health care services. Now we're talking about macroeconomic analyses of health care spending. What are the knock-on effects on the economy? But mainly we see microeconomic analyses – sectoral performance analyses – used in health care organization. An example is the city/hospital relationship and the role of pricing in health care coordination. Economists have developed their own tools taking into account specifics, like the previously mentioned market failures or the phenomenon of information asymmetry. They have applied macroeconomic tools and studied the relationship between unemployment and health. They have contemplated whether health spending increases with a country's wealth, whether increases in health expenditures improve the health status of a population and examined the relationship between health, wealth, and overall well-being. Economists have also used microeconomics, i.e. analyzing individual behaviors and how they interact. In this field, can we say individuals maximize their satisfaction, that is, utility or profit, depending on the case?

2. Market failures





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- ➔ Finally, they have incorporated recent developments in microeconomic analysis particularly behavioral economics, which mixes psychology and economics, allowing us to understand why individuals move away from the rational behaviors originally proposed by economists. Health economists have drawn inspiration from work done in other fields, such as labor economics, industrial economics, public economics, and have responded to requests to evaluate public policies, i.e. to intervene, helping decision-makers to choose between costly innovations. It is one of the fields in which economic analysis has been most developed, by applying socio-economic calculation: a comparative analysis, of the benefits and costs of intervention at different levels: at the hospital level, regional level national level or even international level. In conclusion, in response to the questions we saw at the beginning, I will say that while health care does have specific features economic analysis is still relevant, provided it takes into account those features, along with market failures.

2. Market failures

