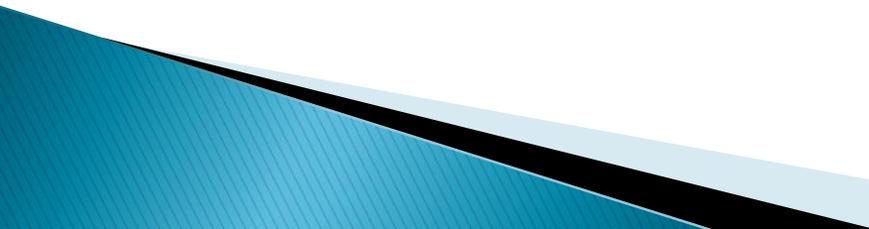


HEALTH ECONOMIC (ECN 420)

ADEKEYE EMMANUEL SEGUN

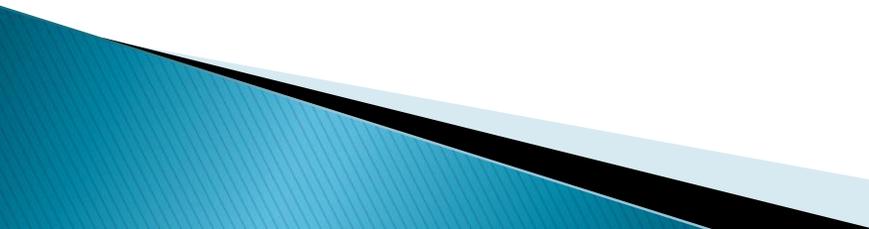
Unit One: Introduction to Health Economics

- ▶ Health Economics : health economics is the application of the theories, concepts, and techniques of economics to the health sector.
 - ▶ It is concerned with allocation of resources within the various health care strategies, quantity and quality of resources used in health care delivery, funding of health care services.
 - ▶ It also deal with efficiency in use of resources allocated for health care and the effects of preventive, curative, and rehabilitative health services on individuals and the society.
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DEMAND AND SUPPLY IN HEALTH CARE

- ▶ Health need is transformed into a health care demand when a patient seeks medical care.

Reasons why Health Care needs Exceeds Demand

- ▶ Price of health care may not be affordable by the individuals (Affordability).
 - ▶ The service required may not be available to the individual (Availability).
 - ▶ Religious and cultural believes and practices may hinder the use of the health facilities (Acceptability)
 - ▶ The Individuals may not have ready access to the health facility at a time or place that is convenient (Geographical accessibility)
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Elasticity of Demand for Health Care Services

- ▶ Price Elasticity of Demand:
 - ▶ **Inelastic Demand:** Health care services often have inelastic demand, meaning that changes in price have a relatively small effect on the quantity demanded.
 - ▶ **Elastic Demand:** Some elective procedures or non-essential services may have more elastic demand, where price changes can significantly impact demand.
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Income Elasticity of Demand

- ▶ **Normal Goods:** Health care services are typically considered normal goods, meaning that as income increases, the demand for health care services also increases.
 - ▶ **Luxury Goods:** Some high-end medical treatments might be considered luxury goods, with demand increasing more than proportionally with income.
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Cross-Price Elasticity of Demand

- ▶ **Substitutes:** If the price of alternative treatments or services increases, the demand for a specific health care service might increase.
 - ▶ **Complements:** If the price of complementary goods (e.g., medication needed for a treatment) decreases, the demand for the health care service might increase.
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Factors Influencing Demand for Health Care

- ▶ Income
 - ▶ Price of Health Care Services
 - ▶ Insurance Coverage
 - ▶ Demographic Factors i.e Age, Gender, population
 - ▶ Education
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Factors Influencing Supply of Health Care

- ▶ Availability of Health Care Providers
 - ▶ Availability of Health Care Facilities
 - ▶ Government Policies and Regulations
 - ▶ Cost of Inputs
 - ▶ Available Infrastructure
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Unit Two: COST OF HEALTH CARE

- ▶ The cost of Health Care encompasses the total expenses incurred in providing medical services to individuals and population.

Types of Health Care Cost

- ▶ Direct medical cost
 - ▶ Direct Non-Medical Cost
 - ▶ Indirect Non-Medical Cost
 - ▶ Intangible Costs
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Elements of Cost

- ▶ **Cost comprises three (3) elements:**
 - ▶ Loss of production.
 - ▶ Expenditures for medical care.
 - ▶ Pain, discomfort and suffering that accompany the disease.
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Economic Efficiency in Health Care

- ▶ **Economic efficiency** in health care refers to the optimal allocation of resources to maximize health outcomes.
 - ▶ It involves using the available resources (such as funds, personnel, equipment, and facilities) in a way that provides the best possible health care services and outcomes at the lowest possible cost.
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Allocative efficiency and technical efficiency

- ▶ **Allocative efficiency** in health care is achieved when resources are distributed in a way that maximizes the overall benefit to society
- ▶ **Technical efficiency** in health care refers to the production of health care services in a way that maximizes outputs (health outcomes) from a given set of inputs (resources such as labor, equipment, and materials).

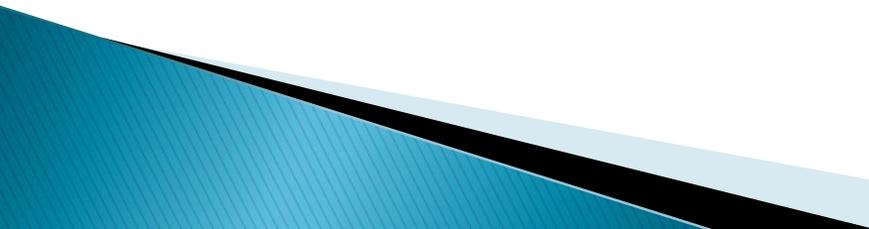
Allocative efficiency

Technical efficiency

Measuring Economic Efficiency in Health Care

- ▶ Cost-Effectiveness Analysis (CEA)
 - ▶ Cost-Benefit Analysis (CBA)
 - ▶ Cost-Utility Analysis (CUA)
 - ▶ Efficiency Frontier Analysis
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Reasons for the Present Trend in Cost of Health Care

- ▶ Demographic reason
 - ▶ Labour intensive nature of health services
 - ▶ Quality of health services – Advances in technology
 - ▶ Public expectation
 - ▶ Organization and structure of health system
 - ▶ Changing epidemiological picture during socio-economic development
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Unit Three: Health Financing

- ▶ Health care financing can be broadly divided into Public and Private financing.

Options in Health Care Financing

- ▶ Public health financing include direct government funding, social insurance
- ▶ Private health financing include user charges, private health insurance, community financing and donations.

Public health financing

private health financing

Broad category of health financing in Nigeria

- ▶ Direct Government Financing
 - ▶ User Charges (Out of pocket expenses)
 - ▶ Community Financing
 - ▶ Health Insurance
 - ▶ Foreign Aid
 - ▶ Voluntary Donations
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Direct Government Financing

- ▶ Direct government financing of health activities is the most widespread approach to health financing in the developing world.
 - ▶ Government either provides periodic allocations from general government revenues or assigns the proceeds of a designated tax to the health sector or both.
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User Charges (Out of pocket expenses)

- ▶ User charges is also known as out-of-pocket expenses.
 - ▶ It is another way of financing health care is by charging patients.
 - ▶ These charges take a variety of forms.
 - ▶ User charges have the advantage of providing a link between financial responsibility and the provision of services.
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Arguments in favour and Against User Charges

- ▶ Fees make the patient more conscious of the services consume, thus strengthens self caring.
- ▶ Keep services running and improves quality of care and confidence in the services.
- ▶ User fees however small will make up some level contribution to the health financing.
- ▶ Revenues collected are not usually enough compared to cost of providing services.
- ▶ Introduction of user charges reduces utilization rates.
- ▶ Fees collection and its management requires management capabilities which may not be available at some lower levels of health care delivery.

Arguments in favour of User Charges

Arguments against user Charges

Community Financing

- ▶ **Community financing** refers to the collective pooling and management of financial resources by a community to fund specific projects or services in health care.
 - ▶ It leverages the contributions of community members.
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Community financing cover the following:

- ▶ Paying at full or preferential rates for health facilities organized through community efforts.
 - ▶ Paying for socially organized voluntary community insurance schemes.
 - ▶ Giving of gifts in cash, labor, or kind for collective benefits.
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Health Insurance

- ▶ Health insurance is a system in which prospective consumers of care make payment to a third party in the form of an insurance scheme, which in the event of future illness will pay the provider of care for some or all of the expenses incurred.
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Types of Health Insurance

- ▶ Private insurance
 - ▶ Compulsory insurance
 - ▶ Voluntary insurance
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Foreign Aid

- ▶ Foreign Aid in health care financing refer to financial assistance provided by one country (or international organization) to support health care systems and improve health outcomes.

Type of foreign Aid in Health Care Financing

- ▶ Bilateral Aid
 - ▶ Multilateral Aid
 - ▶ Non-Government Organizations
 - ▶ Humanitarian Aid
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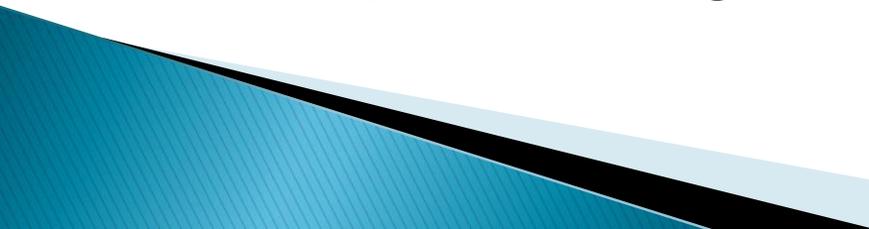
Voluntary Donations

- ▶ These are contributions usually from individuals or groups within the country.
 - ▶ Philanthropists may make cash donations and/or donations in kind (buildings, equipment, etc).
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Unit Four: BUDGETING

- ▶ **Budget** is defined as a quantitative statement, usually in monetary terms, of the expectations of a defined area of the organization over a period of time in order to manage financial performance.
 - ▶ **Budget** can also be seen as a plan for the allocation of resources and a control for ensuring that the results comply with the plans.
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Basic Concepts Related to Budget

- ▶ Budgeting – Is the process of planning and controlling future operations by comparing actual results with planned expectations.
 - ▶ Controlling – It is the process of comparing actual results with the results projected in the budget.
 - ▶ Incremental (line-by-line) budget – This is a budget worksheet listing expense items on separate lines.
 - ▶ Zero-Based Budget – This is a budgetary approach that assumes the base for projecting next year's budget is zero.
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Basis Concept Related to Budget

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- ▶ Fixed Budget – A budget in which budgeted amounts are set regardless of changes that occur during the year such as volume of patient, unanticipated inflation.
 - ▶ Variable Budget – A budget developed with the understanding that adjustments to the budget may be made during the year based on changes in revenues, patient volume and other expenses.
 - ▶ Fiscal Budget – is a specified 12 month period during which operational and financial performance is measured.
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Types of Budget

- ▶ Operating Budget
 - ▶ Capital Expenditure Budget
 - ▶ Personnel Budget
 - ▶ Capital Expenditure Budget
 - ▶ Cash Budget
 - ▶ Flexible Budget
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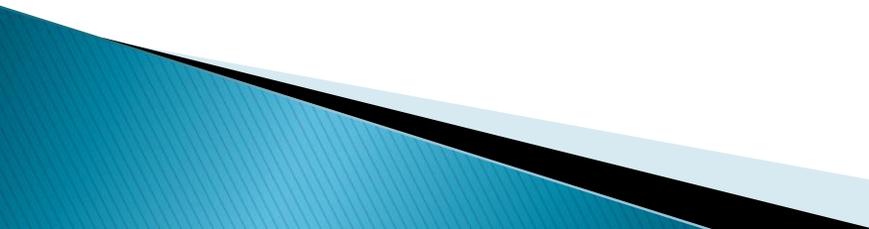
Advantages of budgeting

- ▶ Help in Minimizing hasty judgments in decision making
 - ▶ Budget plans for detailed programme activities .
 - ▶ Through budget Resources can be projected and waste minimized.
 - ▶ Help fix accountability by assignment of responsibility and authority .
 - ▶ Encourage managers to have careful analysis of operations and to base decisions on careful consideration
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Disadvantages of Budgeting

- ▶ It is time consuming and expensive.
 - ▶ It requires skill and experience for successful budgetary control
 - ▶ May become an end in itself instead of a means to an end.
 - ▶ Danger of over-budgeting making the budget cumbersome and expensive
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Unit Five: COST CONTAINMENT IN HEALTH CARE

- ▶ The goal of cost containment is to keep costs within acceptable limits for volume, inflation and other parameters
 - ▶ **Cost considerations in health care** involve analyzing various aspects of spending to ensure that resources are used efficiently while maximizing health outcomes.
 - ▶ It helps in Understanding and managing costs that are crucial for maintaining sustainable health care systems
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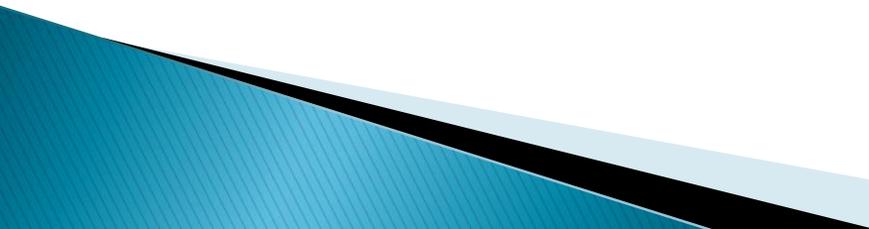
Sources of Problems In Health Sector

- ▶ Allocation Problem
 - ▶ Inefficiency Problem
 - ▶ Inequity Problem
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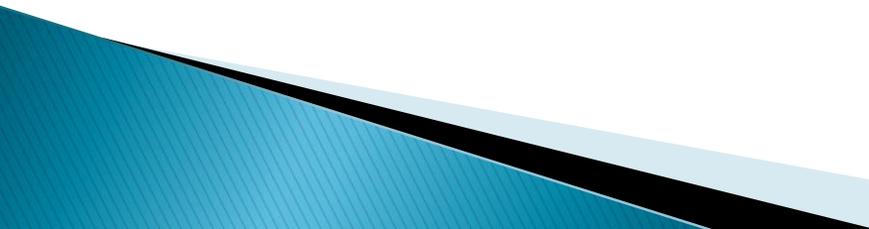
Types of Cost Containment in Health Care

- ▶ Cost Awareness
 - ▶ Cost Monitoring
 - ▶ Cost Avoidance
 - ▶ Cost Reduction
 - ▶ Cost Control
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Ways Cost of Health Care Can be Contained

- ▶ Promoting preventive care
 - ▶ Encouraging Generic Drug use
 - ▶ Implementing Telemedicine
 - ▶ Reducing Administrative Cost
 - ▶ Implementing Payment Reform
 - ▶ Promoting Health and Wellness Programs
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Unit Six: HEALTH INSURANCE

- ▶ Health insurance is a system in which prospective consumers of care make payment to a third party in the form of an insurance scheme, which in the event of future illness will pay the provider of care for some or all of the expenses incurred.
 - ▶ Health insurance provides a form of financing which make payment for the fees relatively easier
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Types of Health Insurance Scheme

- ▶ **Private health insurance** is a contract between an insurance company and the customer and in the private sector.
 - ▶ **Public health insurance** is a third party arrangement which may be parastatal, insurance scheme, government, and social security and sometimes the providers.
 - ▶ **Social Health Insurance** is a program financed by government through tax revenues that guarantee citizens financial benefits for events which are beyond individual control, such as old age, disability and poor health.
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Community Health Insurance

- ▶ A community based programme which normally operates in the rural areas and mostly localized.

Reimbursement

- ▶ Under this system the patient buys his own medical care in the private market and then sends the receipted bills to the insured who reimburses the insured person either for part of the full cost or on the basis of standard payment for a particular service which will normally be well below the prices actually paid.
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Problems with health insurance

- ▶ Increasing cost of health care.
 - ▶ Some medical problems may not be covered by the scheme.
 - ▶ Some private insurance companies charge people at different rates based on their own personal health.
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