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Health Care Economics and Policy: An Introduction

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The special collection on Health Care Economics and Policy of the BE Journal of Economic Analysis & Policy features nine papers that encompass both empirical and theoretical contributions. The research topics include insurance and health policy for disadvantaged populations, recreational and illegal drug uses, advertising and competition in pharmaceutical firms, hospital waiting times and qualities responses to information and incentives, and physicians and health plan reactions to legal standard of health care. The portfolio of papers is a good representation of the current issues in these topics.

Shore-Sheppard studies the impact of US Medicaid eligibility expansions on insurance take-up by children in low-income families, as well as crowding out, which asserts that public expansion of health insurance provision may reduce private provision. Her analysis expands on earlier works, which have been concerned with the problem of the endogeneity of eligibility. Shore-Sheppard shows that controlling for age-specific time trends reduces the effect of Medicaid expansion on children's insurance take-up and yields an insignificant crowd-out. The effect of the expansion of Medicaid on take-up is shown to be limited.

Some research on the Medicaid expansions has found significant differences in take-up between children of immigrants and children whose parents were born in the US. The article by Buchmueller, LoSasso and Wong tests whether there was a differential effect of the State Children's Health Insurance Program (SCHIP), which was implemented by states in the late 1990s. Contrary to prior research, Buchmueller and colleagues find similar take-up rates and similar effects on private coverage for children of immigrants and natives. This finding illustrates the effectiveness of state policies aimed at reducing enrollment barriers and outreach programs tailored to culturally and linguistically diverse populations.

Zimmer studies how employment separation affects displaced workers' subsequent health care utilization. He finds that workers who have elected to continue coverage through the Consolidated Omnibus Reconciliation Act (COBRA) consume more health care than those who become uninsured, but COBRA election does not indicate adverse selection. Zimmer's analysis is particularly important for the US, where much of health insurance is provided through the workplace. Employment turnover is a common way in which a consumer loses health insurance. COBRA allows health insurance to continue when employment is interrupted. His analysis therefore assesses COBRA's effectiveness, and whether adverse selection is a serious problem.

Bretteville-Jensen, Melberg and Jones test a gateway theory of drug use, which hypothesizes that drug uses escalate from soft to hard drugs. The gateway theory is different from alternative theories that emphasize drug accessibility or vulnerability to deviance among drug users. Using a unique data set from Norway, Bretteville-Jensen et al test the gateway theory. They find empirical

support for it, whether or not unobserved heterogeneity is controlled for. The paper presents much needed understanding on the most effective way to prevent addiction.

Meyerhoefer and Zuvekas and Linnosmaa both study the pharmaceutical industry. In recent years, drug companies are allowed to advertise directly to consumers (DTC). Such DTC advertising can give consumers useful information about medications, but can also be regarded as a marketing attempt by drug companies to increase demand. Focusing on antidepressants, the most prescribed medication in the US, Meyerhoefer and Zuvekas show that DTC advertising does raise demand, in that it increases the likelihood of initiation of antidepressant use. Nevertheless, they show that DTC advertising does not significantly increase utilization among users. Pharmaceutical DTC advertising can be likened to a promotion campaign that alerts consumers to the existence of drugs.

Linnosmaa further expands pharmaceutical companies' advertising into those to consumers (DTC) and those to physicians, which is usually called detailing. Both forms of advertising create some market power for pharmaceutical firms by reducing physicians' price sensitivity in prescribing drugs. He shows that firms may end up in an asymmetric equilibrium: some firms concentrate on DTC advertising, while other firms on detailing, and these product differentiation techniques let firms avoid strict Bertrand price competition.

Propper, Sutton, Whitnall and Windmeijer assess the effectiveness of the market reform in the UK National Health Service in reducing waiting times. When market mechanisms did not reduce waiting times significantly, the English NHS introduced stronger sanctions against providers that failed to achieve policy goals. Because these more aggressive steps were only adopted in England but not in Scotland, Propper and her coauthors are able to test whether such aggressive incentives have been successful. They have found that stronger incentives indeed have lowered waiting times of elective surgeries. Their findings therefore show that incentives do matter.

Glazer, McGuire and Normand study quality reporting, which has become increasingly common. The belief is that more information benefits consumers. Reports on qualities are almost always incomplete. Glazer et al consider how a health care provider will respond if it must achieve a quality score, obtained by weighted sums of qualities in the output profile. Next, Glazer et al derive the optimal weights when a regulator takes into account the provider's optimal responses. The paper shows that the provider's multi-input-multi-output production structure may determine whether the regulator can achieve the first best.

Olbrich analyzes how the legal system may interact with health care reimbursement policies. This approach integrates payment and legal malpractice incentives. Where patients have legal recourses, their threat to sue for damages is

a potentially strong influence on how providers care for patients. If care is substandard according to a legal rule, and if the outcome of care turns out to be below expectation, a lawsuit may result, and providers may be subject to legal penalties. Olbrich asserts that reimbursement systems must take the legal incentives into account. She studies how provider care may be affected by different legal standards, and whether reimbursement policies may adjust to these standards to achieve efficient outcomes.

Papers in this collection are contributions in a mature field of economics. Papers by Shore-Sheppard, Buchmueller et al, Bretteville-Jensen et al, and Zimmer are studies on disadvantaged populations; they clearly contribute to policies. The papers by Meyerhoefer and Zuvekas and Linnosmaa are concerned with how pharmaceutical firms use advertising to influence demand and compete against each other. Propper et al and Glazer et al study incentives and regulations. Finally, Olbrich presents an integrated theory of legal and reimbursement incentives. This Special Collection contains original and important research which will broaden our understanding of health care economics and policies.