

Demand for Health and Medical Care

1

Forecasting Medical Care Demand

- The key factor driving demand is income
- Between 1875 and 1995, income spent on
 - Food, clothing, shelter – 74% to 13%
 - Health care – 1% to 9%
 - An implied income elasticity of 1.6
- GDP to double over the next 30 years to \$30 trillion
 - 1.6 income elasticity implies HCE growth to \$6.7 trillion, or 23% of GDP

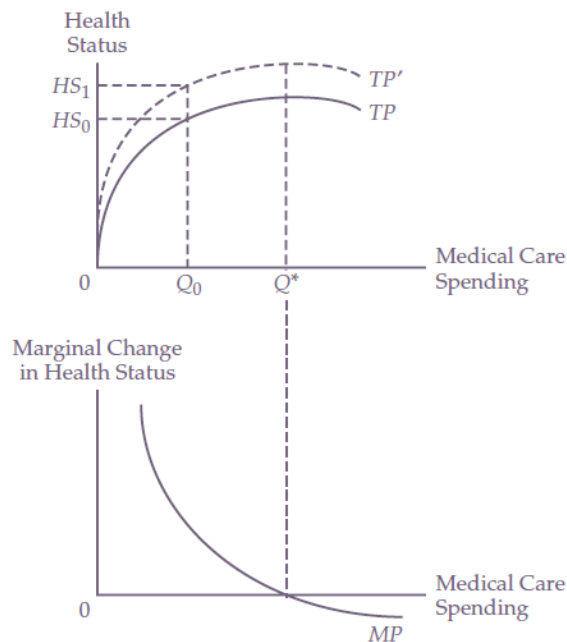
2

The Demand for Health

- The Production of Health
 - Health = H (medical care, other inputs, time)
- People use medical care in combination with other inputs and their own time to produce good health
- But governed by the law of diminishing returns

3

Relationship Between Health Status & Medical Care Spending



4

Measure of Health Status

- Good health defined:
 - A state of complete physical, mental, and social well-being, and not merely the absence of disease or infirmity – World Health Org
- Mortality: death rate for a given population
- Morbidity: effects of diseases or medical conditions
 - Measures may include restricted-activity days due to illness, incidence rate of chronic conditions, self-assessment of health status
- Quality of Life

5

Determinants of Health Status

- Income and education
 - To a large extent, these determine access to health care
- Environmental and lifestyle factors
 - The American Cancer Society estimates that 65% of all cancer is linked to these
- Genetic factors
 - Mapping the human genome may help determine the genes responsible for certain inherited diseases

6

Role of Public Health & Nutrition

- The decline in mortality in Europe and North America attributable to four major sources:
 - Living standards (better nutrition & housing) advanced dramatically
 - Public Health authorities improved sanitary conditions in urban centers (water purification, disposal of sewage)
 - Certain diseases declined because of reduced exposure & increased natural immunity
 - Advances in medical science; improvements in surgery; obstetric & pediatric care; immunizations

7

Demand for Medical Care

- The search for ways to slow medical care spending growth has focused on the supply side of the market
- Some believe modifying behavior is the only way to control runaway spending
- MEDICAL CARE AS AN INVESTMENT
 - Demand for medical care based on desire to feel better, but also be more productive
- The demand for medical care is inversely related to its price

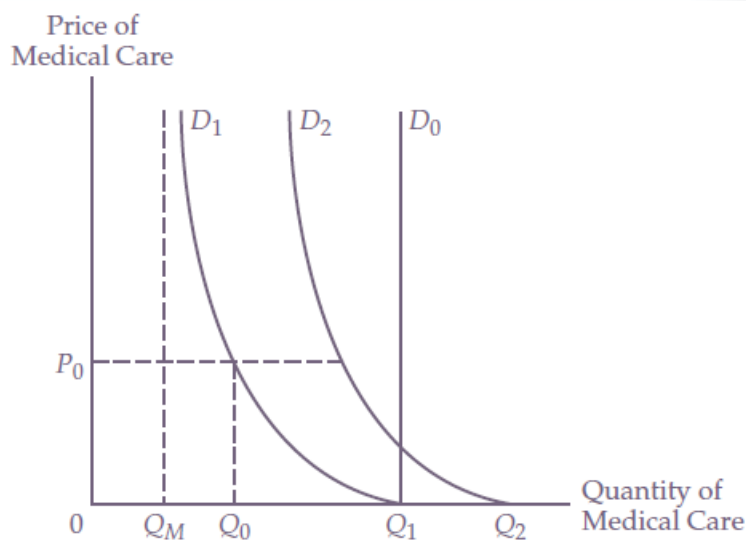
8

Factors Influencing Demand

- Demand for health care determined by great extent by patient need, but self-defined
- Depends on individual's current health status
- Demand based on willingness to pay does not ignore need; need is simply one of the determinants
- Demographic characteristics
- Economic standing
- Physician factors

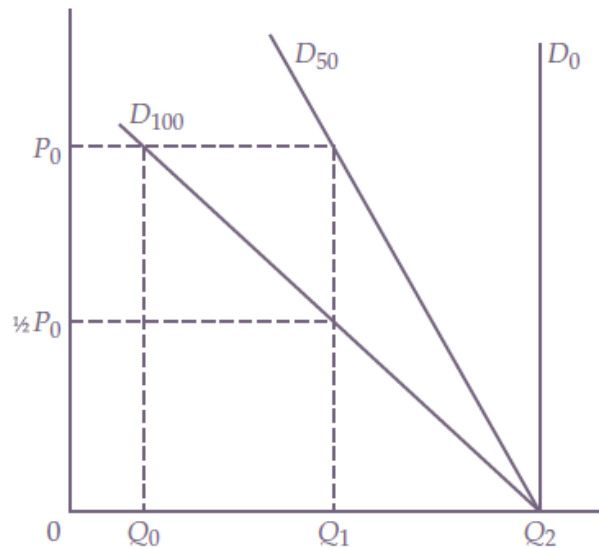
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Demand Based on Need versus Willingness to Pay



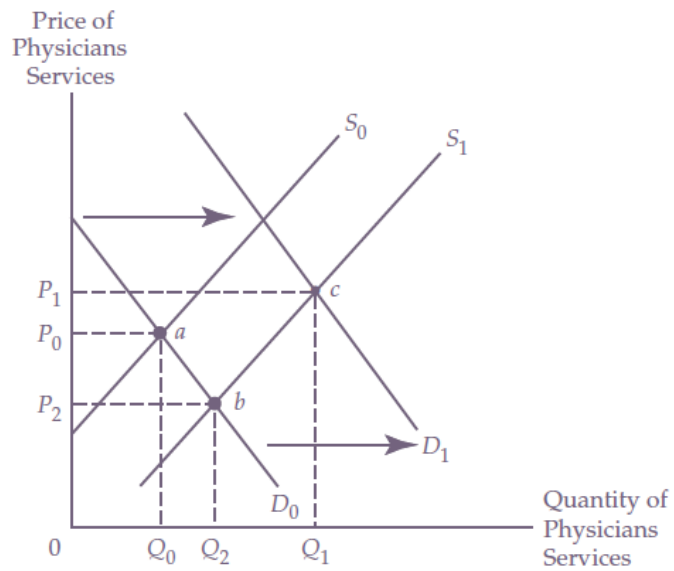
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Effect of Insurance on Demand



11

Demand Inducement with Increased Supply



12

Measuring Demand

- Demand is typically estimated using regression analysis, though not straightforward
- Calculating elasticities is subject to considerable disagreement
- Consumer demand seems to be relatively unresponsive to changes in the price of medical care

13

That's all for Chapter 5

14