

File: c01; Chapter 1 Choices: Money, Medicine, and Health

True/False

1) Over the past 100 years, out of pocket expenditures for health care services by individuals have decreased from about 50% to less than 10%.

Answer: False.

Response: 81% personal expenditures in 1929; 11% personal expenditures in 2012.

Reference: 1.2 Flow of Funds/Sources of Financing.

Level: *Easy*

2) Third party payers account for 60% of all health care expenditures in 2012.

Answer: False.

Response: 89% of all health care expenditures in 2012 are through third-party financing.

Reference: 1.2 Flow of Funds/Sources of Financing.

Level: *Easy*

3) Ranking everyone by the amount spent on medical care, 70 percent of the total (all expenditures for all people) is accounted for by the top 10 percent of patients. This phenomenon is called **cost shifting**.

Answer: False.

Response: The statistics are correct; the explanation is incorrect. The situation describes only the fact that medical expenses are incurred unevenly across all of the population, and does not specify who pays that 70 percent share of the nation's healthcare bill. The term **cost shifting**, however, incorporates the comparison of who incurred the expenses versus who paid the bill.

Reference: 1.1 What Is Economics?/Financing Health Care AND 1.2 Flow of Funds/Sources of Financing.

Level: *Medium*

4) Not only is the share of the GDP going to health care higher in 2012 than in 1929, the wages of health care workers have risen more rapidly than for other types of labor.

Answer: True.

Reference: 1.2 Flow of Funds/ Health Care Providers: The Uses of Funds.

Level: *Easy*

5) The Flow of Funds idea emphasizes that total dollars spent by individuals, government and other third party payers for health care must equal total income earned by health care providers, administrators and other health care workers.

Answer: True.

Reference: 1.2 Flow of Funds.

Level: *Easy*

6) The hospital opens a cancer center in an adjacent abandoned building. Since it was an abandoned building, there are no opportunity costs of this decision.

Answer: False.

Response: The building, as well as all other resources that were invested into the cancer center, could have been used in an alternate way; to open a women's health center, for instance. The foregone benefits from opening a women's health center would be the opportunity cost of this decision.

Reference: 1.3 Economics Principles as Conceptual Tools/Opportunity Cost

Level: *Medium*

7) Socioeconomic differences in mortality found in the U.S. are most likely attributable to lack of universal health insurance coverage.

Answer: False.

Response: Socioeconomic differences in mortality are noticed in other OECD countries as well as in poorer countries like Ghana and Bangladesh.

Reference: 1.4 Health Disparities.

Level: *Medium*

8) When a drug company advertises it will provide a prescription drug at no charge to certain individuals who cannot afford a doctor prescribed drug, costs are most likely being shifted away from individuals who are paying high prices to those who are paying nothing.

Answer: False.

Response: Costs are being shifted *to* individuals who are paying high prices *from* those who are paying nothing.

Reference: 1.1 What Is Economics?/Financing Health Care.

Level: *Easy*

9) A hospital system is rewarded with higher profits in the short term when it implements electronic health records which increase the timeliness of physician and patient communication.

Answer: False.

Response: While it is possible that a hospital might realize higher patient revenues in the long term if it increases its quality of service in the area of communication, it is unlikely that an investment in electronic health records would result in a short term return. Further, the idea of a hospital realizing a “profit” is questionable. Most hospitals are “not for profit” institutions, which brings into question the maximizing goal of the hospital. This highlights the difference between hospitals and the neoclassical profit-maximizing firms.

Reference: 1.1 What Is Economics?/Financing Health Care.

Level: *Medium*

10) As access to high-quality care has been steadily improving across the world, inequalities in health can still be found only in relatively poor countries.

Answer: False.

Reference: 1.4 Health Disparities

Level: *Easy*

### Multiple Choice

11) In which of the following examples does the fundamental theorem of exchange not apply?

- a) You pay your optometrist \$500 for a new pair of eyeglasses.
- b) You donate your old, used eyeglasses to the Lions Club, a charitable organization which recycles and distributes the glasses to needy people.
- c) You pay a fertility specialist \$10,000 to perform In Vitro Fertilization procedure which does not result in pregnancy.
- d) You pay a fertility specialist \$10,000 to perform In Vitro Fertilization procedure which results in pregnancy.
- e) Unknown to you, your neighbor is tapping into your cable TV service and sharing your service.

Answer: e

Response: The fundamental theorem of exchange rests on the idea that both parties engage in a transaction because they expect to be made better off by entering it. In case (e), one neighbor is stealing service that the other neighbor has not agreed to provide.

Reference: 1.1. What is Economics?

Level: *Medium*

12) To reduce the ache in your knees when you work out, you buy an elastic knee brace from the pharmacy section at the grocery store. This transaction differs from paying a surgeon to replace your knee joint because

- a) the price of the knee brace is the same at all the local markets; however, the price for a knee replacement cannot be determined.
- b) the knee brace is basically the same product regardless of where you buy it or who you buy it for, even though there may be different manufacturer brand names. However, each knee replacement surgery is different, and its specifics vary according to the individual patient's needs and the individual physicians' assessment and skills.
- c) you are able to pay for the purchase of the knee brace from your health savings account.
- d) you require a physician's expertise to determine your need for the knee brace.
- e) you expect that the transaction will result in alleviating your pain.

Answer: b

Response: Answer (b) highlights the idea that surgery involves expectations on the patient's part about the expertise and judgment of the physician, that the price of the surgery may not be fully known in advance because the amount of work required may vary by patient case characteristics, and that the physician agrees to a certain quality of performance and follow up in the case of any adverse reactions to the surgery.

Reference: 1.1. What is Economics?/Terms of Trade

Level: *Difficult*

13) Buying a hip replacement surgery is different from the assumptions of a purchase in the perfectly competitive market because

- a) the seller has an ethical duty to care for you.
- b) all buyers are price makers.
- c) product characteristics do not vary significantly across providers.
- d) information is freely available about surgeons specializing in hip replacements.
- e) obtaining Board Certification in Orthopedic Surgery is a relatively quick and uncomplicated procedure.

Answer: a

Reference: 1.1. What is Economics?/Can We Pay Somebody to Care?

Level: *Medium*

14) U.S. health spending per capita in 2012 was

- a) less than \$3,000.
- b) between \$3,000 and \$5,000.
- c) between \$5,000 and \$7,000.
- d) between \$7,000 and \$9,000.
- e) more than \$9,000.

Answer: d

Reference: 1.1. What is Economics?/ Full Cost: Paying For Medical Care

Level: *Easy*

15) Which of the following statements is *false*? Significant increase in healthcare spending over the past seventy years can in part be explained by the

- a) increase in the cost of labor-intensive services.
- b) increase in the overall level of medical care prices.
- c) increase in intensity and quality of care.
- d) increase in the share of the healthcare costs spent on manufactured goods such as drugs.
- e) population growth.

Answer: d

Reference: 1.2. The Flow of Funds/Health Care Providers: The Uses of Funds

Level: *Difficult*

16) When a money price cannot be assigned to a health care action such as a choice an individual makes to exercise to maintain a healthy cardiovascular system, economists use the concept of opportunity cost which values the action

- a) according a rule of thumb.
- b) as the next best alternative the individual gives up in order to exercise.
- c) at the median gym membership price in the residential area.
- d) at zero price.
- e) as the number of years expected to be added to the person's life due to exercise.

Answer: b

Response: Opportunity cost recognizes that people have to give up something in order to undertake a particular course of action. The decision to exercise requires a certain amount of resources, including, most notably, time. Once the decision to exercise is taken, those resources become unavailable for any other alternative activities.

Reference: 1.3 Economics Principles as Conceptual Tools/Opportunity Cost

Level: *Easy*

17) Scarcity means

- a) time and resources spent researching a cure for breast cancer are time and resources that could have been spent researching cures for lymphoma.
- b) 25 year olds might be more willing to start a family than 35 year olds.
- c) government funding of federal programs equals the amount paid in taxes.
- d) all consumers are assumed to have limited financial resources.
- e) money flows in a circle.

Answer: a

Reference: 1.3 Economics Principles as Conceptual Tools/Scarcity

Level: *Easy*

18) A US citizen is considering having plastic surgery in Costa Rica. The next best alternative for her is to have that surgery done in a local doctor's office, where it is priced significantly higher. The full opportunity cost of having surgery in Costa Rica versus having it done locally would include all of the following except

- a) direct price of the procedure
- b) roundtrip airfare
- c) hotel costs incurred during the mandatory recovery time while in Costa Rica
- d) acceptance of certain risks, including not having access to follow-up care from the same physician upon return
- e) lost income due to down time

Answer: e

Response: Option (e) could have been a part of the opportunity cost only if this person were deciding on whether to have this surgery or not. Since the decision to have surgery has already been taken and the person is now simply trying to select a location, down time and the loss of income associated with it would happen in any case.

Reference: 1.3 Economics Principles as Conceptual Tools/Opportunity Cost

Level: *Difficult*

19) Firms apply marginal analysis to maximize the following production goal:

- a) demand.
- b) profit.
- c) output.
- d) prices.
- e) total revenue.

Answer: b

Reference: 1.3 Economics Principles as Conceptual Tools/ Maximization: Marginal Costs and Marginal Benefits

Level: *Medium*

- 20) The healthcare sector currently comprises more than one sixth (18%) of the entire economy; it is big and growing. The opportunity cost of this growth includes all of the following except
- a) direct cost of labor resources that went into the healthcare industry
  - b) direct cost of capital resources that went into the healthcare industry
  - c) direct cost of land resources that went into the healthcare industry
  - d) the value of the new jobs that the healthcare sector continues to create at a faster rate, compared to other industries
  - e) the foregone value of the output not created by other industries, as the resources that could have been used in those industries were diverted to health care

Answer: d

Reference: 1.3 Economics Principles as Conceptual Tools/Opportunity Cost

Level: *Difficult*

- 21) Investments in human capital include all the following *except*
- a) attending college.
  - b) saving money for college.
  - c) exercising.
  - d) maintaining a healthy weight.
  - e) immunizing children against diseases.

Answer: b

Reference: 1.3 Economics Principles as Conceptual Tools/Investment

Level: *Easy*

- 22) Government regulations and professional licensing of health care providers is a response to the nature of human response to illness and pain. Examples include all the following *except*
- a) requiring hospitals to report the number of hospital acquired infections to state agency.
  - b) requiring for profit hospitals to pay income tax.
  - c) requiring physicians to be licensed by the state.
  - d) requiring FDA approval of cancer fighting drugs.
  - e) requiring hospitals receiving Medicare funds to be approved by Medicare.

Answer: b

Reference: 1.1 What Is Economics?/Terms of Trade

Level: *Easy*

23) Which of the following statements about the concept of “rationality” is false?

- a) Rationality means that people make choices to make themselves better off subject to resource constraints.
- b) Rationality means that organizations make choices to meet their objectives (maximize profits, minimize cost, get elected).
- c) People and organizations are always perfectly rational in their decisions.
- d) Purchasing life insurance to minimize the risk of financial problems for your family is an example of a rational decision.
- e) Rationality is a concept that organizes and guides economic analysis, but may sometimes miss the human meaning of transactions in healthcare markets.

Answer: c

Reference: 1.6 Social Science and Rational Choice Theory

Level: Medium

Essay

24) Dr. Getzen differentiates choices people make concerning lifestyle, risk modification measures and illness treatments. Why do health economists seem to concentrate on measuring the illness treatments rather than lifestyle choices?

Answer: Deaths due to obesity rank second to deaths due to smoking. It is relatively easier to measure the dollars spent on weight loss inducing surgery than it is to measure individual efforts to lose weight without a medical intervention like surgery. Recognizing that the demand for services to treat obesity is really a derived demand for health, individual choices to improve health include behavioral options when one is healthy, plus medical care when one is sick. Health outcomes over the long term depend on decisions individuals make about lifestyle and risk modification. Most decisions we study in health economics, however, have to do with choices made once a person is sick.

Reference: 1.3 Economics Principles as Conceptual Tools/Investment

Level: *Medium*

25) What do economists mean by scarcity? What is a major resource that is scarce for a full-time student who also works night shifts to pay for her education?

Answer: Scarcity means wants exceed available resources. For this person, time is scarce.

Reference: 1.3 Economics Principles as Conceptual Tools/Scarcity (Budget Constraints)

Level: *Easy*



26) Jenna pays \$400 for a pair of designer eyeglasses. She realizes a week later that she really does not believe they are worth \$400 and the eye doctor robbed her and she overpaid. Use the Fundamental Theorem of Exchange to refute her claim.

Answer: Jenna had the freedom to enter into the transaction. Her expectation was that the glasses were worth \$400. Just because her tastes change later does not mean the deal was unfair at the time she entered into it.

Reference: 1.1. What is Economics?/Terms of Trade

Level: *Medium*

27) Explain why the existence of third party payers make people less sensitive to price when buying health care services in the hospital than they would have been in 1929.

Answer: In 1929, the average patient paid 81% of health care costs out of pocket. In 2012, the average patient's share of health care costs out of pocket was 11%. This means that third parties pay most of the bill. Patients buy insurance contracts with the goal that if an emergency hospitalization occurs, they will not have to ask for a price list while in the emergency room.

Reference: 1.2 The Flow of Funds

Level: *Medium*

28) The university bans use of perfumes and colognes in any office, dorm room, classroom, or other public building on campus. What is the public good that is impacted? What is the cost? What is the benefit?

Answer: The public good is fresh air. The cost is a small loss of liberty for those who enjoy wearing perfumes and colognes. The benefit to those few individuals who may be allergic to chemical scents is a reduction in the allergens in the air.

Reference: 1.5 Whose Choices: Personal, Group, Or Public?

Level: *Medium*

29) Who pays for research in the U.S. health care industry?

Answer: It is very difficult to trace the costs of research to the end price of new products and innovations in health care. Research and development expenses may show up in the income statements of pharmaceutical companies. Research grants from the government and from charitable trusts may fund cures for cancer such as new drugs or surgeries. Finally, a single surgeon might develop a treatment for intraocular lens implants that leads to changes in the way cataracts are treated around the world.

Reference: 1.3 Economics Principles as Conceptual Tools/Investment

Level: *Medium*

30) According to the Centers for Medicare and Medicaid Services, more than a quarter of the Medicare budget goes to paying for medical care incurred during the enrollees' last year of life. What is the opportunity cost of those billions of dollars? Is it relatively low or high? What could be possible alternative uses of that money? List at least a few alternative options and discuss the associated tradeoffs.

Answer: The opportunity cost is very high. From an economist's point of view, the same resources spent on different population groups would most likely result in larger marginal improvements in the nation's health. Possible options may include, among others, expanding Medicaid eligibility to cover more people who are currently uninsured; or increasing funds for and access to preventive care programs. The expected gains in the population's health in each case would almost certainly outweigh the relatively small marginal health improvements received by the elderly during their last year of life. The ethical and political considerations, however, must also be taken into account when policy changes are being considered.

Reference: 1.3 Economics Principles as Conceptual Tools/Opportunity Cost

Level: *Difficult*