

Health Economics

(Part 1)

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Introduction

- The planet earth is inhabited by different life forms
- The earth with its immense resources supports the species
- Humankind has emerged as superior to all other species by its ability
 - to think rationally,
 - to take decisions for its betterment and prosperity and
 - with its higher intelligence can control the planet
- This ability of the humankind has made them to exploit the earth's resources for their own benefit
- Some have developed more sophisticated and luxurious lifestyles

Introduction

- Though the Earth is endowed with enormous resources, this is not unlimited
 - The humankind for their own prosperity and benefit has been exploiting these resources
 - This high levels of activity has created ecological imbalance depriving the other species
 - ❖ Also the future generation of mankind is being deprived from their due share¹

Introduction

- Within the mankind itself some could succeed more than others in the competition and became rich
- Though the number of billionaires are not many but a vast majority spend their lives in poverty
- There is one difference of the humankind with other species
- Human kind has the ability to make choices and can choose their own destiny
- As individuals or as a society we can influence our future

Introduction

- Economics has been described in the face of the scarcity of the resources as the science of choice
- So the society can make choices whether it wants to make use of the resources for education or for making war ships
- The decision making systems have inherent disagreements with its members
 - The decision cannot satisfy all people at all times

Introduction

- As a result human passion have been excited through out the history
- This excited passion resulted in eruption of revolutions, wars being fought, and
 - demonstrations continue in many cities of the world for proper distribution of wealth and resources
- This phenomenon raises many economic questions

Introduction

- These are some of the macroeconomics questions, such as:
 - ❖ Why are some countries rich and others poor?
 - ❖ What causes the prices of things to rise or fall?
 - ❖ What determines unemployment and can anything be done to reduce it?
- So the basic questions in economics are:
 - How wealth is created
 - How it is distributed among people, and
 - What is sacrificed in the process

Introduction

- What is economics?
 - Though the world has enormous resources, but these are not unlimited
 - Each of us has limited resources
 - We neither have the time nor the money to do everything we might want to do
 - Therefore we must choose – out of the possible options available, on what we spend our money and time

Introduction

- Economics is the study of how people make these decision
 - In the face of limited resources, we have to decide whose wants are to have priority
 - ❖ At the end, we have to decide whether we make guns or produce more rice or wheat.
- It asks how individuals, families, businesses and governments decide how limited resources will be allocated

Introduction

- As there is scarcity, we have to sacrifice one thing to get the other
- Economics is also deals with incentives and how they impact behaviour of people
 - We get motivated by the prospect of acquiring more resources
- Economics looks at how this motivation to acquire more resources impacts our decision making process

Introduction

- Economy²
 - An economy is a man made organisation for satisfying human wants
 - Economic institutions can be created, destroyed, replaced or changed
 - ❖ E.g., In 1917, capitalism was changed to communism in USSR
 - Levels of economic activities keep on changing
 - An economy is a system by which people get living
 - The way man attempts to get a living differs in major respects from time to time and from place to place

Introduction

- Producers and consumers are the same person
 - ❖ They have a dual role
 - ❖ As producers they produce certain goods and services and consume the same as consumers
- Production, consumption and investment are the vital processes of an economy
- In modern complex economies money is used as medium of exchange

Economy

- Types of Economies

- All economy is man made organisation
- The economic systems can be differentiated on certain criteria:
 - ❖ On the basis of ownership and control over means of production or resources
 - * Resources or means of production remain with full individual freedom to use them for the profit motive or they can be in collective ownership (government control) and can be used for collective welfare of the society as a whole
 - ❖ Based on the criteria of degree of individual freedom and profit motive. Economies are labelled as:

Economy

- ❖ Capitalist or free enterprise economy (Market economy)
- ❖ Socialist or centrally planned economy (Command economy)
- ❖ Mixed economy

- Capitalist economy

- This is the oldest form of economy. The main features are:

- ❖ Private property

- * An individual has the right to own property and can use it as per his/her own will

Economy

- * There is no restriction on the ownership of land, machines, mines, factories
- * Individuals and families can earn profit and accumulate wealth
- * The property can be inherited by the heirs – this way the institution of private property is sustained over time

❖ Freedom of enterprise

- * The government does not interfere with the citizen's right to produce whatever they like and how they like to produce
- * Firms are free to sell their product in the market of their choice
- * Individuals are free to choose any occupation

Economy

- ❖ In a small business, the owner takes all the risks of production and is responsible for profit or loss
 - ❖ In a modern bigger corporation, the stakeholders take the risk and paid directors manage business
 - ❖ Government or any other agency does not impose any restrictions in the way to join or leave an organisation
 - ❖ A worker chooses an organisation as per his/ her capability and where the income may be maximum
- **Consumer Sovereignty**
 - ❖ Consumers are like king

Economy

- ❖ They have the full freedom to do whatever they want with their earned money
- ❖ In capitalist system, production is guided by consumer's choice
- ❖ The freedom of consumer is known as consumer sovereignty
- Profit motive
 - ❖ Self-interest is the governing principle in capitalism
 - ❖ Entrepreneurs are dictated by the motive of maximising profit
 - * They try to minimise cost and maximising revenue
 - * This way capitalist economy brings in efficiency

Economy

○ Competition

- ❖ The capital economy system do not impose any bar on entry and exit of any business
- ❖ There may be many supplier of the goods and services
 - * Therefor, no firm can earn more than normal profit
- ❖ Competition is the fundamental feature of capital economy
 - * Competition safeguards consumers' interest by preventing their exploitation
 - ◇ Product distinction gives rise to monopolistic tendencies

Economy

- Importance of markets and prices
 - ❖ Capitalism is essentially a market economy where every commodity has a price
 - ❖ In this, private ownership of property, freedom of choice, profit motive, and competition creates an opportunity for efficient functioning of price mechanism
 - ❖ Forces of demand and supply in an industry determine price
 - ❖ Firms which are able to adjust price earn normal profit
 - * Others, quit the industry

Economy

- Absence of government interference
 - ❖ In a free enterprise the price plays an important role
 - * The price acts as a coordinating agent
 - * Government support is not required and not provided
 - * The role of the government is to help in the efficient functioning of market
- Pure capitalism is not seen in the world today
 - ❖ The economies of USA, UK, France, Spain, Portugal, Australia are capitalist countries
 - ❖ Governments in these countries have active role in their economic development

Economy: Socialist Economy

- Socialist economy (Command Economy)
 - This is a centrally planned economy
 - All the productive resources are owned and controlled by the government for the benefit of the society
 - All economic decisions are take by the government
 - The main features of socialist economy include:
 - ❖ Collective ownership of means of production:
 - * Means of production are owned by the government on behalf of the people

Economy: Socialist Economy

- * The institution of private property is dispensed with
- * No individual is allowed to own any production unit and accumulate wealth and transfer it to their heirs
- * People can own some durable personal consumer goods for use

❖ Social Welfare Objective

- * The decisions are taken by the government at the macro level
- * Objective is to maximise social welfare
- * The forces of demand and supply do not play any important role
- * Decisions are taken with the collective welfare objective in mind

Economy: Socialist Economy

❖ Central planning

- * Economic planning is an essential feature of a socialist economy
- * The Central Planning Authority with focus on national priorities and based on available resources allocates resources
- * The planning authority fix targets for various sectors and ensures their efficient utilisation

❖ Reduction in Inequalities

- * Inequality is determined by twin institutions of private ownership of property and inheritance
- * However, perfect equality in income abolishes incentive and is neither desirable or practicable

Economy: Socialist Economy

❖ No class conflict

- * In capitalist economy the workers' and managements' interest are not the same
- * Both of them want to maximise their own individual profit or earnings
- * This result in class conflict in capitalist economy
- * In socialist economy there is no competition among classes
- * Every person is a worker, all are co-workers
 - ◇ There is only one class, so there is no class conflict

Economy:

- Socialism in today's world

- * China, Cuba, Laos, Vietnam, North Korea and some East European Countries follow communism

- * Many of them are now advocating liberalism for their economic development

- **Mixed Economy**

- A mixed economy combines the best features of capitalist economy as well as government controlled socialist economy

- Public and private sectors coexist in mixed economies

Economy: Mixed Economy

- The main characteristics

- ❖ Co-existence of public and private sectors

- * The private sector consists of production units owned by private individual(s)

- * The public sectors consist of production units owned by the government

- ◇ Public sector work for the social welfare

- * The areas of economic activities are generally demarcated

- * Government uses various policies like licensing policy, taxation policy, price control policies and fiscal policies to regulate private sectors

Economy: Mixed Economy

❖ Individual Freedom

- * Individuals pursue economic activities to maximise their personal income
- * They can choose any occupation of their liking
- * There is no restriction on their consumption
- * Individuals, however, do not have liberty to exploit consumers and labours
- * Some restrictions the governments put for restricting hazards for the production of harmful materials
 - ◇ Excepting these restrictions, a private person otherwise enjoys complete freedom

Economy: Mixed Economy

❖ Economic Planning

- * Government prepares long-term plans and decide on the respective roles of private and public sectors for economic development
- * Public sectors are under direct control of the government
 - ◇ The government decides on the target of production and draws of the necessary plan to achieve that
- * Private sectors are provided with incentives, encouragement, support and subsidies
 - ◇ These are done as per national priorities

Economy: Mixed Economy

❖ Price Mechanism

- * Prices play a dominant role in the allocation of resources
 - * For some sectors policies of administered prices are adopted
 - * Government may provide price subsidies to help the target group such as those BPL (e.g., subsidy in cooking gas)
 - * The aim is to maximise welfare of people
 - * As in public distribution system, food items, kerosene etc are provided at a subsidised rate
- ❖ Thus in mixed economy, people at large enjoy individual freedom and government support weaker section of the society

Indian Economy

- Indian economy is considered a mixed economy
- It has well defined and segmented areas for both private and public sectors
- Indian economy is characterised as middle income developing market economy
- It is the world's sixth largest economy by nominal GDP (Gross Domestic Product) and the third largest by purchasing power parity (PPP) (as per IMF)

Economy types – based on level of development

- Can be classified in two categories:
 - Developed economy
 - ❖ It is characterised by
 - * higher national and per capita income
 - * High savings and investment
 - * Educated human resources
 - * Better civic facilities
 - * Better health and sanitation facilities

Economy types – based on level of development

- * Low birth rate
- * Low death rate
- * Low infant mortality
- * Developed industrial and social infrastructure, and
- * A strong financial and capital market
- * Overall, people in these economies have a high standard of living
- * Examples:
 - ◇ US, UK, Japan

Economy types – based on level of development

- Developing Economy

- ❖ The main features are:

- * Low national and per capita income
 - * Low savings, investment and capital formation
 - * Poor health and sanitation
 - * High infant mortality
 - * High birth and death rates
 - * Poor infrastructure
 - * Overall, people have a low standard of living

End of Part 1