

DEMAND AND SUPPLY IN HEALTH CARE

DEMANDS

Demand means desire to buy or consume something. In Economics Demand refers not only to desire but also ability and willingness to buy goods or services. It means a consumer should have desire, ability to pay for a product or service and willingness to pay for it.

LAW OF DEMAND

The law can be explained in following manner. "the other things being equal, a fall in price leads to expansion in demand and a rise in price leads to contraction in demand".

The law of demand can be expressed in mathematical terms i.e $D=f(p)$ where D represents demand, P represents price and F represents the functional relationship.

HEALTH CARE DEMAND

The demand for health care is a derived demand from the demand for health. Health care is demanded as a means for consumers to achieve a larger stock of "Health capital". The demand for health is unlike most other goods because, individuals allocate resources in order to consume and produce health.

Micheal Grossman's 1972 model of health production has been extremely influential in this field of study and has several unique elements that make it notable. Grossman's model views each individual as both a producer and a consumer of health. Health is treated as a stock which degrades over time in the absence of "investment" in health, so that health is viewed as a sort of capital. The model acknowledges that health care is both a consumption good that yields direct satisfaction and utility, and an investment good, which yields satisfaction to consumers indirectly through increased productivity, fewer sick days and higher wages. Investment in health is costly as consumers must trade off time and resources devote to health, such as exercising at a local gym, against other goals. These factors are used to determine the optimal level of health that an individual will demand. The model makes prediction over the effects of changes in price of health care and other goods, labor market

SHRI GURU RAM RAI INSTITUTE OF TECHNOLOGY AND SCIENCE

outcomes such as employment and wages , and technological changes. These predictions and other predictions from models extending Grossman's 1972 paper form the basis of much of the econometric research conducted by health economists.

In Grossman's model the optimal level of investment in health occurs where the marginal cost of health capital is equal to the marginal benefit. With the passing of time health depreciates at some rate. The marginal cost of health capital can be found by adding these variables. The marginal benefit of health capital is the rate of return from this capital in both market and non market sectors. In this model the optimal health stock can be impacted by factors like age, wages and education. As an example increases with age so it becomes more and more costly to attain the same level of health capital or health stock as one ages. Age also decreases the marginal benefit of health stock. The optimal health stock will therefore decrease as one ages.

SUPPLY

The term supply is nothing but anything which is offered for sale. In economics Supply of a product during a given period of time means the quantities of goods which are offered for sale at particular prices. Hence, supply of a commodity may be defined as the amount of that commodity which a seller is able and willing to offer for sale at a particular price during a given period. The ability of seller to supply a commodity depends on the stock available with him. Similarly seller should have willingness to supply a product. This depends upon the difference between reservation price and the prevailing market price or the price which is offered by the buyer for that commodity.

LAW OF SUPPLY

The law of supply can be stated as "by keeping other factor constant supply expands with rise in price and contracts with fall in price". The law of supply reflects the general tendency of the producers in offering their stock of a product for sale in relation to the changing prices. It has been observed that usually sellers are willing to supply more with rise in prices. The supply varies directly with the changes in price.

DR.NEHA GHILDIYAL, ASST. PROFESSOR (DEPARTMENT OF HOSPITAL ADMINISTRATION)

SUPPLY OF HEALTH CARE

MICROECONOMIC EVALUATION AT TREATMENT LEVEL

Economic evaluation is the comparison of two or more alternative courses of action in terms of both their costs and consequences. Economists usually distinguish several types of economic evaluation differing in how consequences are measured:

Cost minimization analysis

Cost benefit analysis

Cost-effectiveness analysis

Cost utility analysis

In cost minimization analysis (CMA) the effectiveness of the comparators in question must be proven to be equivalent. The cost-effective comparator is simply the one which costs less (as it achieves the same outcome). In cost-benefits analysis (CBA) cost and benefits are both valued in cash terms. Cost effectiveness analysis (CEA) measures outcomes in a composite metric of both length and quality of life the quality adjusted life year (QALY)

A final approach which is sometimes classed as an economic evaluation is a cost of illness study. This is not true economic evaluation as it does not compare the cost and outcomes of alternative courses of action. Instead it attempts to measure all the costs associated with particular diseases or conditions. These will include direct costs (where money actually changes hands e.g. health service use, patient co-payments and out of pocket expenses), indirect cost (The value of lost productivity from time off work due to illness) and intangible cost (the disvalue to an individual of pain and suffering).

After a careful study of Health Industry we can conclude that the supply of health care facilities depends on internal and external factors. The internal factors are availability of funds, Government subsidy and encouragement, existence of medical personnel and drugs, etc. The external factors demand for health care, existence of pharmaceutical companies, laboratories, blood banks, etc. As the demand for health care services is inelastic, the supply of healthcare services is also inelastic.

DR.NEHA GHILDIYAL, ASST. PROFESSOR (DEPARTMENT OF HOSPITAL ADMINISTRATION)