

# BRIEF CONTENTS

## **PART I Basic Economics Tools**

- Chapter 1** Introduction 1
- Chapter 2** Microeconomic Tools for Health Economics 20
- Chapter 3** Statistical Tools for Health Economics 48
- Chapter 4** Economic Efficiency and Cost-Benefit Analysis 63

## **PART II Supply and Demand**

- Chapter 5** Production of Health 85
- Chapter 6** The Production, Cost, and Technology of Health Care 105
- Chapter 7** Demand for Health Capital 129
- Chapter 8** Demand and Supply of Health Insurance 148
- Chapter 9** Consumer Choice and Demand 173

## **PART III Information and Insurance Markets**

- Chapter 10** Asymmetric Information and Agency 195
- Chapter 11** The Organization of Health Insurance Markets 210
- Chapter 12** Managed Care 236
- Chapter 13** Nonprofit Firms 265

## **PART IV Key Players in the Health Care Sector**

- Chapter 14** Hospitals and Long-Term Care 283
- Chapter 15** The Physician's Practice 302
- Chapter 16** Health Care Labor Markets and Professional Training 319
- Chapter 17** The Pharmaceutical Industry 344

## **PART V Social Insurance**

- Chapter 18** Equity, Efficiency, and Need 367
- Chapter 19** Government Intervention in Health Care Markets 390
- Chapter 20** Government Regulation: Principal Regulatory Mechanisms 407
- Chapter 21** Social Insurance 435
- Chapter 22** Comparative Health Care Systems 466
- Chapter 23** Health System Reform 492

## **PART VI Special Topics**

- Chapter 24** The Health Economics of Bads 513
- Chapter 25** Epidemiology and Economics: HIV/AIDS in Africa 531

# CONTENTS

Preface *xix*

## Part I Basic Economics Tools

### Chapter 1 Introduction 1

What Is Health Economics?	2
The Relevance of Health Economics	3
The Size and Scope of the Health Economy	3
Health Care's Share of GDP in the United States	3
Health Care Spending in Other Countries	4
Importance of the Health Economy in Personal Spending	5
Importance of Labor and Capital in the Health Economy	6
Time—The Ultimate Resource	7
The Importance Attached to Economic Problems of Health Care Delivery	8
Inflation	9
Access	9
Quality	9
The Economic Side to Other Health Issues	9
Economic Methods and Examples of Analysis	10
Features of Economic Analysis	10
Examples of Health Economics Analysis	11
Does Economics Apply to Health and Health Care?	12
An Example: Does Price Matter?	12
Is Health Care Different?	13
Presence and Extent of Uncertainty	13
Prominence of Insurance	13
Problems of Information	14
Large Role of Nonprofit Firms	15
Restrictions on Competition	15
Role of Equity and Need	16
Government Subsidies and Public Provision	16
Conclusions	16
Summary	17
Discussion Questions	18
Exercises	18

### Chapter 2 Microeconomic Tools for Health Economics 20

Scarcity and the Production Possibilities Frontier	21
Practice with Supply and Demand	23
The Demand Curve and Demand Shifters	23
The Supply Curve and Supply Shifters	24
Equilibrium	25
Comparative Statics	25

Functions and Curves	26
Linear Functions	27
Demand Functions	27
Derived Demand	28
Consumer Theory: Ideas Behind the Demand Curve	28
Utility	29
Indifference Curves	30
Budget Constraints	31
Consumer Equilibrium	32
Individual and Market Demands	33
Elasticities	33
Production and Market Supply	35
The Production Function	35
Production Functions	36
Isocost Curves	38
Cost Minimization or Output Maximization	39
Marginal and Average Cost Curves	40
The Firm Supply Curve Under Perfect Competition	41
Monopoly and Other Market Structures	43
Conclusions	45
Summary	45 • Discussion Questions 46 • Exercises 47
<b>Chapter 3 Statistical Tools for Health Economics</b>	<b>48</b>
Hypothesis Testing	49
Difference of Means	49
The Variance of a Distribution	50
Standard Error of the Mean	51
Hypotheses and Inferences	53
Regression Analysis	54
Ordinary Least Squares (OLS) Regressions	55
A Demand Regression	56
Estimating Elasticities	57
Multiple Regression Analysis	58
Interpreting Regression Coefficients	58
Dummy Variables	59
Statistical Inference in the Sciences and Social Sciences	60
Conclusions	61
Summary	61 • Discussion Questions 61 • Exercises 62
<b>Chapter 4 Economic Efficiency and Cost-Benefit Analysis</b>	<b>63</b>
Economic Efficiency	63
Cost-Benefit Analysis: Background	66
Cost-Benefit Analysis: Basic Principles	66
Measuring Costs	67

Risk Equity Versus Equality of Marginal Costs per Life Saved	67
Marginal Analysis in CBA	68
Discounting	70
Risk Adjustment and CBA	71
Distributional Adjustments	72
Inflation	72
Valuing Human Life	72
Willingness to Pay and Willingness to Accept	73
Contingent Valuation	73
How Valuable Is the Last Year of Life?	73
Cost-Benefit Analyses of Heart Care Treatment	75
Cost-Effectiveness Analysis	76
Advantages of CEA	77
Cost-Utility Analysis, QALYs, and DALYs	77
An ACE Inhibitor Application of Cost-Effectiveness Analysis	78
QALYs Revisited: Praise and Criticism	78
Are QALYs Consistent with Standard Welfare Economics?	78
Extra-Welfarism	79
Sen's Capability Approach and QALYs	79
Linearity Versus What People Think	79
The Ageism Critique of QALYs	80
Conclusions	80
Summary	81
Discussion Questions	81
Exercises	82

## Part II Supply and Demand

### Chapter 5 Production of Health 85

The Production Function of Health	85
The Historical Role of Medicine and Health Care	88
The Rising Population and the Role of Medicine	88
What Caused the Mortality Rate Declines? Was It Medicine?	89
What Lessons Are Learned from the Medical Historian?	93
The Production of Health in the Modern Day	93
Preliminary Issues	93
The Contribution of Health Care to Population Health:	
The Modern Era	94
Is Health Care Worth It?	95
Prenatal Care	96
The World's Pharmacies	97
How Does Health Care Affect Other Measures of Health?	97
On the Importance of Lifestyle and Environment	98
Cigarettes, Exercise, and a Good Night's Sleep	99
The Family as Producer of Health	100
Social Capital and Health	100
Environmental Pollution	101
Income and Health	101

The Role of Schooling	101
Two Theories About the Role of Schooling	102
Empirical Studies on the Role of Schooling in Health	102
Conclusions	102
Summary	103 • Discussion Questions 103 • Exercises 104

## **Chapter 6 The Production, Cost, and Technology of Health Care 105**

Production and the Possibilities for Substitution	106
Substitution	106
What Degree of Substitution Is Possible?	107
Elasticity of Substitution	107
Estimates for Hospital Care	109
Costs in Theory and Practice	109
Deriving the Cost Function	110
Cost Minimization	111
Economies of Scale and Scope	112
Why Would Economies of Scale and Scope Be Important?	113
Empirical Cost-Function Studies	114
Difficulties Faced by All Hospital Cost Studies	114
Modern Results	116
Summary: Empirical Cost Studies and Economies of Scale	116
Technical and Allocative Inefficiency	116
Technical Inefficiency	116
Allocative Inefficiency	117
Frontier Analysis	118
The Uses of Hospital Efficiency Studies	119
For-Profit Versus Nonprofit Hospitals	120
Efficiency and Hospital Quality	120
Are Hospital Frontier Efficiency Studies Reliable?	120
Performance-Based Budgeting	121
Technological Changes and Costs	121
Technological Change: Cost Increasing or Decreasing?	121
Health Care Price Increases When Technological Change Occurs	122
Diffusion of New Health Care Technologies	124
Who Adopts and Why?	124
Other Factors That May Affect Adoption Rates	125
Diffusion of Technology and Managed Care	126
Conclusions	126
Summary	126 • Discussion Questions 127 • Exercises 127

## **Chapter 7 Demand for Health Capital 129**

The Demand for Health	129
The Consumer as Health Producer	129
Time Spent Producing Health	130
Labor–Leisure Trade-Offs	131
Trading Leisure for Wages	132
Preferences Between Leisure and Income	132

- The Investment/Consumption Aspects of Health 133
  - Production of Healthy Days 133
  - Production of Health and Home Goods 134
- Investment over Time 135
  - The Cost of Capital 135
- The Demand for Health Capital 136
  - Marginal Efficiency of Investment and Rate of Return 136
  - The Decreasing *MEI* 136
- Changes in Equilibrium: Age, Wage, and Education 137
  - Age 137
  - Wage Rate 138
  - Education 139
- Empirical Analyses Using Grossman's Model 139
- Obesity—The Deterioration of Health Capital 141
  - An Economic Treatment of Obesity 142
  - Economic Effects 143
  - Why Has Obesity Increased? 144
- Conclusions 145
  - Summary* 146 • *Discussion Questions* 146 • *Exercises* 146

**Chapter 8 Demand and Supply of Health Insurance 148**

- What Is Insurance? 148
  - Insurance Versus Social Insurance 149
  - Insurance Terminology 149
- Risk and Insurance 150
  - Expected Value 150
  - Marginal Utility of Wealth and Risk Aversion 151
  - Purchasing Insurance 152
- The Demand for Insurance 153
  - How Much Insurance? 153
  - Changes in Premiums 155
  - Changes in Expected Loss 155
  - Changes in Wealth 156
- The Supply of Insurance 157
  - Competition and Normal Profits 157
- The Case of Moral Hazard 159
  - Demand for Care and Moral Hazard 159
  - Effects of Coinsurance and Deductibles 162
- Health Insurance and the Efficient Allocation of Resources 162
  - The Impact of Coinsurance 162
  - The Demand for Insurance and the Price of Care 166
  - The Welfare Loss of Excess Health Insurance 167
- The Income Transfer Effects of Insurance 168
- Conclusions 170
  - Summary* 170 • *Discussion Questions* 171 • *Exercises* 171

**Chapter 9 Consumer Choice and Demand 173**

Applying the Standard Budget Constraint Model	174
The Consumer's Equilibrium	175
Demand Shifters	176
Health Status and Demand	178
Two Additional Demand Shifters—Time and Coinsurance	178
The Role of Time	178
The Role of Coinsurance	180
Issues in Measuring Health Care Demand	182
Individual and Market Demand Functions	182
Measurement and Definitions	183
Differences in the Study Populations	183
Data Sources	183
Experimental and Nonexperimental Data	184
Empirical Measurements of Demand Elasticities	184
Price Elasticities	184
Individual Income Elasticities	185
Income Elasticities Across Countries	186
Insurance Elasticities	187
Impacts of Insurance on Aggregate Expenditures	189
Other Variables Affecting Demand	189
Ethnicity and Gender	189
Urban Versus Rural	190
Education	190
Age, Health Status, and Uncertainty	191
Conclusions	191
Summary	192
Discussion Questions	193
Exercises	193

**Part III Information and Insurance Markets****Chapter 10 Asymmetric Information and Agency 195**

Overview of Information Issues	196
Asymmetric Information	196
On the Extent of Information Problems in the Health Sector	196
Asymmetric Information in the Used-Car Market: The Lemons Principle	198
Application of the Lemons Principle: Health Insurance	199
Inefficiencies of Adverse Selection	200
Experience Rating and Adverse Selection	201
The Agency Relationship	202
Agency and Health Care	202
Consumer Information, Prices, and Quality	203
Consumer Information and Prices	203

Consumer Information and Quality 204  
Other Quality Indicators 206  
Conclusions 207  
    *Summary 208 • Discussion Questions 208 • Exercises 209*

**Chapter 11 The Organization of Health Insurance Markets 210**

Loading Costs and the Behavior of Insurance Firms 210  
    Impacts of Loading Costs 211  
    Insurance for Heart Attacks and Hangnails 212  
    Loading Costs and the Uninsured 212  
Employer Provision of Health Insurance: Who Pays? 212  
    Spousal Coverage: Who Pays? 215  
    How the Tax System Influences Health Insurance Demand 215  
    Who Pays the Compensating Differentials?—Empirical Tests 217  
    Other Impacts of Employer Provision of Health Insurance 218  
Employer-Based Health Insurance and Labor Supply 219  
    Health Insurance and Retirement 219  
    Health Insurance and Mobility 219  
The Market for Insurance 221  
    The Market for Private Insurance 221  
    Insurance Practices 222  
    The Past 30 Years 223  
The Uninsured: An Analytical Framework 224  
    The Working Uninsured 227  
    The Impacts of Mandated Coverage 229  
Technological Change, Higher Costs, and Inflation 230  
    The Cost-Increasing Bias Hypothesis 231  
    Goddeeris's Model—Innovative Change over Time 231  
    Evidence on Technological Change and Inflation 233  
Conclusions 233  
    *Summary 234 • Discussion Questions 234 • Exercises 235*

**Chapter 12 Managed Care 236**

What Is the Organizational Structure? 237  
What Are the Economic Characteristics? 238  
The Emergence of Managed Care Plans 239  
    Employer-Sponsored Managed Care 240  
    Medicaid and Medicare Managed Care Plans 242  
    Managed Care Contracts with Physicians 242  
    Managed Care Contracts with Hospitals 243  
Development and Growth of Managed Care—Why Did It Take So Long? 244  
    Federal Policy and the Growth of Managed Care 244  
    The Economics of Managed Care 245



Modeling Managed Care	246
Modeling Individual HMOs	246
How Much Care?	247
What Types of Care?	247
Framework for Prediction	248
Where Managed Care Differs from FFS—Dumping, Creaming, and Skimping	248
Equilibrium and Adverse Selection in a Market with HMOs	249
How Does Managed Care Differ?—Empirical Results	251
Methodological Issues—Selection Bias and Quality of Care	251
Comparative Utilization and Costs	252
The RAND Study—A Randomized Experiment	252
Recent Evidence	252
Growth in Spending	255
Competitive Effects	256
Theoretical Issues	256
Managed Care Competition in Hospital Markets	257
Managed Care Competition in Insurance Markets	258
Managed Care and Technological Change	259
The Managed Care Backlash	259
Conclusions	262
Summary	262
Discussion Questions	263
Exercises	264

## **Chapter 13 Nonprofit Firms 265**

An Introduction to Nonprofits	265
Why Nonprofits Exist and Why They Are Prevalent in Health Care	266
Nonprofits as Providers of Unmet Demands for Public Goods	266
The Public Good–Private Good Aspect of Donations	267
Relevance to Health Care Markets	268
Nonprofits as a Response to Contract Failure	269
Applications of Contract Failure to Health Care	269
Financial Matters and the Nonprofit	270
Summary of the Reasons for the Prevalence of Nonprofits	270
Models of Nonprofit Hospital Behavior	270
The Quality–Quantity Nonprofit Theory	271
The Profit–Deviating Nonprofit Hospital	272
The Hospital as a Physicians’ Cooperative	274
Maximizing Net Revenue per Physician	274
A Comparison of the Quantity–Quality and the Physicians’ Cooperative Theories	275
The Evidence: Do Nonprofit Hospitals Differ from For-Profit Hospitals?	276

- Summary of Models of Hospital Behavior 279
- What Causes Conversion of Nonprofits into For-Profits? 279
- The Relative Efficiency of Nonprofits Versus For-Profits 280
  - Are Nonprofit Health Care Firms Less Technically or Allocatively Efficient?—Hospital and Nursing Home Studies 280
- Conclusions 281
  - Summary 281 • Discussion Questions 282 • Exercises 282

**Part IV Key Players in the Health Care Sector**

**Chapter 14 Hospitals and Long-Term Care 283**

- Background and Overview of Hospitals 283
  - History 284
  - Organization 285
  - Regulation and Accreditation 286
- Hospital Utilization and Costs 286
  - Competition and Costs 287
- Closures, Mergers, and Restructuring 291
- Quality of Care 293
- Nursing Homes 294
  - Background and Costs 294
  - Quality of Care 295
  - Excess Demand 296
  - Financing Long-Term Care 297
- Hospice, Home Health, and Informal Care 298
- Conclusions 299
  - Summary 299 • Discussion Questions 300 • Exercises 301

**Chapter 15 The Physician’s Practice 302**

- A Benchmark Model of the Physician’s Practice 303
  - Do Physicians Respond to Financial Incentives? 305
- Physician Agency and Supplier-Induced Demand 305
- Modeling Supplier-Induced Demand 306
  - The Target Income Hypothesis 306
  - The Benchmark Model as a Synthesis 308
  - The Parallel Between Inducement and Marketing 309
- What Do the Data Say About Supplier-Induced Demand? 309
- Physician Fees, Fee Tests, and Fee Controls 309
- Diffusion of Information and Small Area Variations 311
  - Contributions to These Variations 311
  - The Physician Practice Style Hypothesis 312
  - Multiple Regression Approaches 313
  - SAV and the Social Cost of Inappropriate Utilization 313
  - Other SAV Applications 315

Other Physician Issues and Policy Puzzles	315
Malpractice	315
Direct-to-Consumer Advertising of Drugs	316
Paying for Outcomes	316
Conclusions	317
Summary	317 • Discussion Questions 318 • Exercises 318

## **Chapter 16 Health Care Labor Markets and Professional Training 319**

The Demand for and Supply of Health Care Labor	319
Production Functions and Isoquants	320
Marginal Productivity of Labor	321
Factor Substitution and Labor Demand	322
The Supply of Labor	322
Factor Productivity and Substitution Among Factors	324
Measurement of Physician Productivity	324
The Efficient Utilization of Physician Assistants: Substitution Among Inputs	324
Health Manpower Availability and the Meaning of Shortages	325
Availability of Physicians	326
Economic Definitions of Shortages of Health Professionals	327
The Role of Monopsony Power: Shortages of Registered Nurses	330
Medical Education Issues and the Question of Control	332
Sources of Medical School Revenues	332
Capital Market Imperfections Justify Subsidies	332
Teaching Hospitals, Medical Schools, and Joint Production	333
Foreign Medical School Graduates	334
The Control of Medical Education	335
Control over Entry	335
Licensure and Monopoly Rents	336
Licensure and Quality	338
Other Physician Labor Issues	339
Specialization	339
Physician Income by Gender	340
Conclusions	341
Summary	341 • Discussion Questions 342 • Exercises 343

## **Chapter 17 The Pharmaceutical Industry 344**

Structure and Regulation	346
Competition	346
Barriers to Entry	347
Regulation	349
The Production of Health and Substitutability	350
Least-Cost Production	351

- Insurance and Substitutability 352
- Technological Change 353
- Drug Pricing and Profits 354
  - Monopoly Pricing 354
  - Price Discrimination 355
  - Monopsony Pricing and Price Controls 356
  - Competition and Generic Entry 357
- Research and Development (R&D) and Innovation 357
  - Investment Decisions 358
  - R&D Spending 359
  - Firm Size and Innovation 360
  - Prices, Price Regulation, and Innovation 360
- Cost Containment 361
  - Copayments 361
  - Generic Substitutes 362
  - Drug Formularies 363
- New Drugs and Health Care Spending 363
- Conclusions 364
  - Summary 365 • Discussion Questions 365 • Exercises 366

**Part V Social Insurance**

**Chapter 18 Equity, Efficiency, and Need 367**

- Efficiency and Competitive Markets 368
  - The Concept of Pareto Efficiency (Optimality) 368
  - Trading Along the Budget Line 369
  - The Competitive Equilibrium 370
  - The First Fundamental Theorem of Welfare Economics 371
  - Redistribution of the Endowment 371
  - Price Discrimination 372
  - Trade-offs Between Equity and Efficiency 372
- Deviations from the Competitive Model in the Health Care Sector 373
  - The Assumptions Under Perfect Competition 373
- Promoting Competition in the Health Care Sector 374
  - The Theorem of the Second Best 374
- An Economic Efficiency Rationale for Social Health Insurance 375
- Need and Need-Based Distributions 376
  - Health Care Needs and the Social Welfare Function 377
  - Norman Daniels's Concept of Health Care Need 381
  - Economic Criticisms of Need-Based Distributions 382
- Horizontal Equity and Need 382
- Theories of Social Justice 385

Utilitarianism	385
Rawls and Justice as Fairness	385
Liberalism, Classical and Modern	386
Conclusions	387
<i>Summary</i>	388 • <i>Discussion Questions</i> 388 • <i>Exercises</i> 389

## **Chapter 19 Government Intervention in Health Care Markets 390**

Economic Rationale for Government Intervention	390
Monopoly Power	391
Public Goods	392
Externalities	394
Other Rationales for Government Intervention	394
Forms of Government Intervention	395
Commodity Taxes and Subsidies	395
Public Provision	396
Transfer Programs	398
Regulation	398
Government Involvement in Health Care Markets	398
Support of Hospitals	399
The Hill-Burton Act	399
Department of Veterans Affairs and Department of Defense	400
Food and Drug Administration	400
Mandated Health Insurance Benefits	400
Tax Policy	401
Public Health	401
Other Government Programs	401
Government Failure	402
Who Does the Regulator Represent?	403
Bureaucracy and Efficiency	404
Conclusions	405
<i>Summary</i>	405 • <i>Discussion Questions</i> 406 • <i>Exercises</i> 406

## **Chapter 20 Government Regulation: Principal Regulatory Mechanisms 407**

Do the Laws of Supply and Demand Apply?	407
Objectives of Regulation	409
Regulatory Policy	409
Regulatory Instruments in Health Care	409
Regulation of the Hospital Sector	410
Empirical Findings on Regulation	410
Prospective Payment	412
Description of PPS	412
The Theory of Yardstick Competition and DRGs	413
On the Effects of Medicare's Prospective Payment System	417

- Regulation of Physician Payment 423
  - UCR Reimbursement, Assignment, and Alternative Payment Mechanisms 424
  - Relative Value Scales 424
- Antitrust 426
  - Enforcement 426
  - Exemptions 426
  - Measuring Monopoly Power 427
  - Antitrust Procedures 429
  - The Elzinga-Hogarty (EH) Criterion 430
- Conclusions 432
  - Summary 432 • Discussion Questions 433 • Exercises 433

**Chapter 21 Social Insurance 435**

- Social Insurance Policies and Social Programs 435
  - Program Features 436
- Historical Roots of Social Insurance 437
  - European Beginnings 437
  - Early Experience in the United States 438
  - The Establishment of Medicare and Medicaid 438
- The Patient Protection and Affordable Care Act (PPACA) of 2010 439
- Medicare and Medicaid in the United States 440
  - Medicare 440
    - Part D Prescription Drug Insurance 442
  - Medicaid 445
    - Medicaid Eligibility 446
  - The Medicaid-Medicare Relationship 449
  - Medicare and Medicaid: Conflicting Incentives for Long-Term Care 449
  - Children’s Health Insurance Program—CHIP 450
- Public Insurance and Health 451
- The Effects of Medicare and Medicaid 454
  - Costs and Inflation 455
  - Health Status 458
    - Medicare: Recent Changes and Future Prospects 459
- Criticisms of the U.S. Health Care System 462
- Conclusions 463
  - Summary 464 • Discussion Questions 464 • Exercises 465

**Chapter 22 Comparative Health Care Systems 466**

- Contemporary Health Care Systems 466
  - A Typology of Contemporary Health Care Systems 466
- The United Kingdom—The National Health Service 467
  - The National Health Service 469

China—An Emerging System	473
The Canadian Health Care System	476
Background	476
Physician Fees and Quantity	478
Why Are Fees and Hospital Costs Lower in Canada?	479
Administrative Costs	479
A Comparison	481
Different Systems: The Public's Evaluation	484
Differences in Health Care Spending Across Countries	487
A Model of Health Expenditure Shares	487
Conclusions	489
Summary	490
Discussion Questions	491
Exercises	491

## **Chapter 23 Health System Reform 492**

Goals of Reform	492
Basic Issues in Reform	493
The Costs of Universal Coverage	494
Ensuring Access to Care	495
Employer Versus Individual Mandates	495
Separation of Health Insurance from Employment	496
Single Payer Versus Multiple Insurers	497
Competitive Strategies	498
Development of Alternative Delivery Systems	499
Consumer-Directed Health Plans and Health Savings Accounts	499
Other Market Reforms	500
Representation of the Competitive Approach	501
Health System Reform and International Competitiveness	502
Quality of Care	504
The Patient Protection and Affordable Care Act (PPACA) of 2010	505
Conclusions	510
Summary	510
Discussion Questions	511
Exercises	512

## **Part VI Special Topics**

### **Chapter 24 The Health Economics of Bads 513**

An Introduction to Bads	514
Models of Addiction	516
Imperfectly Rational Addiction Models	516
Myopic Addiction Models	516
Rational Addiction	517
Rationales for Public Intervention	519
Other Interventions	520
Advertising Restrictions on Cigarettes and Alcohol	520
The Possible Effects of Brand Switching	522

- Increased Demand or Brand Switching? 522
- Advertising and Alcohol Consumption 523
- Excise Taxes and Consumption of Cigarettes and Alcohol 523
  - The Consumption-Reducing Effects of Excise Taxes in Theory 524
  - Excise Taxes and Cigarette Consumption in Practice 524
  - Excise Taxes and Alcohol Consumption 527
- Conclusions 528
  - Summary 529 • Discussion Questions 529 • Exercises 530
- Chapter 25 Epidemiology and Economics: HIV/AIDS in Africa 531**
  - Concepts from Epidemiology 531
  - Economic Epidemiology 534
    - Rational Epidemics 534
    - The Prevalence Elasticity of Demand for Prevention 535
    - The Economic Consequences of Epidemics 535
    - The Difficulty of Eradicating Diseases 537
    - Information 537
    - The Role of Government in Battling Epidemics 538
  - Case Study: HIV/AIDS in Africa 539
    - HIV/AIDS 539
    - Costs of AIDS 540
    - Fighting AIDS 543
    - Economic Theory and African Reality 545
  - Conclusions 547
    - Summary 547 • Discussion Questions 548 • Exercises 548
- Glossary 549
- References 556
- Name Index 590
- Subject Index 595