HCM3002 Economics of Healthcare

**Week Two**

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**Assignment 4: Economic Principles and NHE**

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| **Table 1: Sources of National Health Expenditures (in billion $)** |
| Year | Total | Out-of-Pocket | Third-Party Payments |
| Total | Private Health Insurance | Other Private Funds | Public |
| Total | Federal\* | State and Local\*\* |
| 1960 | $26.9 | $13.1 | $7.2 | $5.9 | $1.3 | $6.6 | $2.9 | $3.7 |
| 1970 | 73.2 | 24.9 | 20.7 | 16.3 | 4.4 | 27.7 | 17.8 | 9.9 |
| 1980 | 247.3 | 60.3 | 82.3 | 69.8 | 12.5 | 104.8 | 72.0 | 32.8 |
| 1990 | 699.4 | 145.0 | 271.2 | 239.6 | 31.6 | 283.7 | 195.2 | 88.5 |
| 1995 | 987.0 | 149.2 | 379.6 | 322.3 | 57.3 | 458.2 | 323.9 | 134.3 |
| 1998 | 1,146.1 | 176.1 | 447.1 | 376.8 | 70.3 | 522.9 | 369.3 | 153.6 |
| 1999 | 1,210.7 | 186.5 | 475.6 | 401.2 | 74.4 | 548.6 | 384.7 | 163.9 |
| 2003 | 1,614.2 | 230.5 | 662.1 | 600.6 | 61.5 | 721.6 | 488.7 | 232.9 |
|   |   |   |   |   |   |   |   |   |
| \* Includes Medicare, Medicaid, Medicaid State Child Health Insurance Program (SCHIP) Expansion, and SCHIP |
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| **Table 2: Public Program Payments (in billion $)** |
| Year | Total | Federal\* | State and Local\* | Medicare \*\* | Medicaid \*\*\* |
| 1980 | $55.2 | $41.5 | $13.7 | $26.4 | $10.6 |
| 1988 | 111.7 | 84.2 | 27.6 | 56.6 | 20.7 |
| 1993 | 183.7 | 146.9 | 36.8 | 90.1 | 48.5 |
| 1995 | 206.6 | 166.4 | 40.2 | 107.2 | 54.5 |
| 1996 | 217.0 | 176.4 | 40.6 | 116.0 | 56.9 |
| 1997 | 223.7 | 182.2 | 41.5 | 122.5 | 58.1 |
| 1998 | 226.2 | 181.5 | 44.7 | 121.6 | 61.0 |
| 1999 | 232.6 | 186.0 | 46.7 | 122.6 | 66.3 |
| 2000 | 242.8 | 194.2 | 48.6 | 126.9 | 69.9 |
| 2001 | 262.6 | 211.6 | 51.1 | 137.2 | 74.9 |
| 2002 | 286.4 | 229.9 | 56.5 | 149.2 | 83.1 |
| \* Includes Medicaid State Child Health Insurance Program Expansion (SCHIP) and SCHIP |
| \*\* Subset of Federal funds |
| \*\*\* Subset of Federal and State and local funds |

Note: The public payments numbers in Table 1 and Table 2 do not match as categories of expenditures are included in Table 1 that are not included in Table 2. Table 2 focuses solely on expenditures for Medicare, Medicaid, and SCHIP.

Source: Smith C, et al. 2005. Health spending growth slows in 2003. *Health Affairs*, 24(1): 185-194; available at <http://content.healthaffairs.org/cgi/reprint/24/1/185>

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Table 1 presents a breakdown of the sources of national health expenditures for selected years from 1960 through 2003. Comment on the changes in the categories of expenditure sources (i.e., out-of-pocket, third-party payers, and types of third-party payers), both year-to-year changes and over the entire period.

Table 2 presents a breakdown of public program payments for selected years from 1980 through 2002. Describe the situation state and local budget officials are facing, in economic terms, as they construct expenditure plans for Medicaid and other programs. Remember that Medicaid expenditures (which account for over 20% of state budgets) are increasing each year at a rate that exceeds the rise in other spending categories (such as elementary and secondary education, which accounts for 22% of state budgets) and revenue projections are approximately 4-5% over previous years. Explain how this typifies "the economic problem" and what economic principle it illustrates.

When analyzing these types of statistics, you will find it useful to present the data visually, such as by constructing a line graph or a bar diagram. A bar diagram will clearly show changes in values. You can use a spreadsheet program such as MS Excel or Lotus to construct a graph.

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