Book review

Handbook of Health Economics

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1. Introduction

This review is divided into three parts. The first is a broad-brush summary and evaluation of the Handbook of Health Economics, as a whole. The second consists of some rather picky and, perhaps, petty quibbles about the final product. The third airs some thoughts that occurred to me while reading the Handbook of Health Economics.

2. Summary evaluation

The two volumes of the Handbook of Health Economics testify to the flowering of health economics as sub-discipline of economics. The editors are at pains to point out the size, diversity, and newness of the literature subsumed under the heading “health economics”. They are justified in doing so. The Handbook is staggering for a number of reasons. One is sheer size and cost. The two volumes consist of 35 chapters by a total of 55 authors (36 from the USA, 11 from the UK, two each from Sweden, Finland, The Netherlands, and one each from Canada and Switzerland) divided into nine ‘parts’: (1) overview and paradigms; (2) demand and reimbursement for medical services; (3) insurance markets, managed care, and contracting; (4) specific populations; (5) the medical care market; (6) law and regulation; (7) health habits; (8) health and (9) equity. The text comprises of 1910 pages of text and...
references and 86 pages of indexes. The two volumes, 1a and b, weigh in at just over 9
pounds. If this is a Handbook, the thought of an Encyclopedia of Health Economics is
positively terrifying. While these volumes will add weight (in at least two senses) to their
owners’ library shelves, they will lighten their wallets to the tune of $250 for the set.

The more important reason why attention must be paid is the high quality and enormous
breadth of the contents. The roster of authors includes a large proportion of the major
contributors to the health economics literature. The essays, which vary widely in length
(ranging from 26 to 92 pages), style, and readability, provide a comprehensive guide to
health care economics. This collection may not find its way into every economist’s personal
library, but individual chapters will appear on course reading lists for years.

In fact, it would be possible to put together a quite respectable course in health economics
built solely around assigned and optional readings selected from these volumes. Indeed,
catering to students is an explicit objective of the editors, who say that the authors were
asked to write for 1st year US graduate or UK masters students. Given the variability of
1st year graduate programs in USA, one can say that virtually all of the essays hit this
commodious target.

In choosing among the essays, readers will have their own favorites. My required-reading
list would include the following. Thomas McGuire’s chapter on physician agency explores
the issue of induced demand, covers an enormous range, and nicely balances reviews of
theory and empirical findings. David Cutler’s and Richard Zeckhauser’s chapter on health
insurance provides a judicious balance of institutional information and basic theory wrapped
in a pedagogically elegant package. Jon Gruber’s chapter examines health insurance and
the labor market, subtly examines job lock and its welfare implications, and concludes with
three good pages of unanswered research questions to challenge new entrants to the health
economics field. Patricia Danzon’s chapter on liability for medical malpractice should per-
manently innoculate readers against the simplistic analyses so common in medical journals,
newspapers, and even informal discussions among some economists. It uses international
comparisons more effectively than most other contributions to this collection (so does Don-
ald Kenkel’s chapter on prevention) to illuminate the difficult problem of what malpractice
insurance should do and what it does do. Unfortunately, many other chapters were written
without regard for experience outside USA and few went beyond the English-speaking
world. In some cases, such ethnocentrism is defensible, but in others the intellectual fences
are confining.

Martin Gaynor’s and William B. Vogt’s chapter on antitrust and competition may be an
even more valuable addition to industrial organization than to those of health economics,
because it may entice general IO economists to mine the rich vein of peculiar problems
encountered in health markets. It is distinguished by breadth of coverage and clarity of its
prose. Paul Dolan’s chapter on measurement of the health-related quality of life provides
fascinating, if frustrating, explanations of the vexing philosophical, psychological, and
psychometric problems raised by attempts to rank and measure the value added of medical
interventions.

Other chapters will find their way onto supplemental reading lists. A teacher determined to
make students in macro-economics think hard about their national income statistics could do
no better than to assign the chapter by Ernst Berndt et al. on medical care prices and output.
It bears the same relation to price indices as Upton Sinclair’s ‘The Jungle’ does to sausage
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