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Section B

Some Basic Economic Concepts
Economic Concepts and Terminology

- Utility
- Marginal analysis
- Supply and demand
- Quantity supplied and quantity demanded
- Economies of scale
- Externalities
- Time cost
- Elasticity of demand
Utility

- Individuals are thought to try to maximize utility
  - Well-being
  - Happiness

- Economists do not presume to tell individuals . . .
  - What should be included in their utility
  - How they should weight different attributes in their utility function

- Economists would like to observe behavior to infer something about people’s utility functions

- Each of us weighs health relative to other aspects of consumption and behavior differently and may care about different components of health differently
Marginal Analysis

- How to spend the next dollar
  - Gym membership, healthier food, movie night

- How to use the last hour available
  - Housework, leisure, employment, exercise, healthier food preparation

- How much will it cost to produce the next visit
  - What type of provider?
  - What type of patient?
  - What time of day?
  - Where?
Supply and Demand

- Supply describes the relationship between the price at which a good is sold and the quantity that will be produced.

- Demand describes the relationship between the price at which a good is bought and the quantity that will be purchased.

- In a perfectly competitive market, the curves that describe these will cross at a point of equilibrium.

- Fast food—suppose the United States imposes a tax on fast food.
  - At a higher price
    - More would be produced if the producer kept the money but the producer does not keep the tax
    - Less will be consumed
  - The equilibrium without a tax may be “just the right amount” as it is determined by the two sets of tradeoffs.
Quantity Supplied and Quantity Demanded

- Technical distinction between supply and quantity supplied (same for demand)

- Quantity supplied
  - Changes in the quantity supplied imply movements along the supply curve
  - Contrast with change in supply
    - Something exogenous to the quantity and price of the good in question changes and the supply curve shifts

- Quantity demanded—analogous

- If an employer provides a subsidy for a gym membership, more people will join the gym
Economies of Scale

- The unit price of production goes down as the quantity produced increases
- Organic food production may be at a lower unit cost as more organic food is produced
- Processed food production is almost always at a lower cost when more is produced
Externalities

- Effects of a transaction on individuals other than the buyer or seller

- Getting a vaccination protects more than the person who received the vaccination

- Are there externalities of obesity?
Time Costs

- Time is valuable

- We often hear the expression “if there were only more hours in the day”

- What is time worth?

- Health behaviors that require more time are less likely to occur

- Multiple demands on our time
  - Preparing healthy foods, earning money, leisure, parenting, exercise, etc.
Elasticity of Demand

- The relationship between the changes in price and the changes in quantity
  - Percentage changes

- A one percent change in price implies . . .
  - Less than a 1% change in quantity (inelastic)
  - Exactly a 1% change in quantity (unitary elastic)
  - More than a 1% change in quantity (elastic)

- The more elastic the demand for a good, the more that taxing or subsidizing a good will create a negative welfare impact