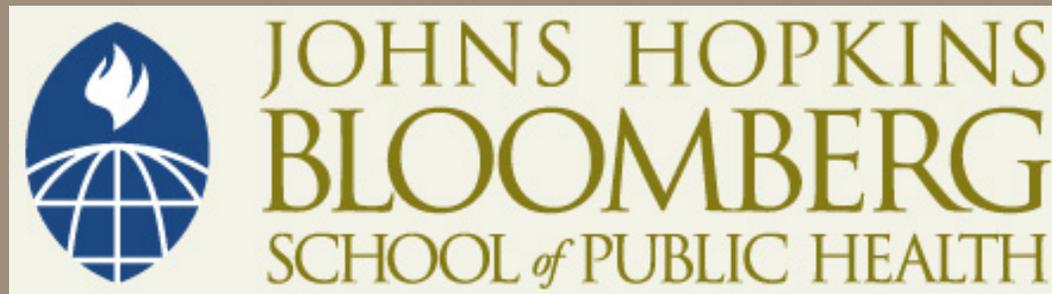


This work is licensed under a [Creative Commons Attribution-NonCommercial-ShareAlike License](https://creativecommons.org/licenses/by-nc-sa/4.0/). Your use of this material constitutes acceptance of that license and the conditions of use of materials on this site.



Copyright 2011, The Johns Hopkins University and Kevin Frick. All rights reserved. Use of these materials permitted only in accordance with license rights granted. Materials provided "AS IS"; no representations or warranties provided. User assumes all responsibility for use, and all liability related thereto, and must independently review all materials for accuracy and efficacy. May contain materials owned by others. User is responsible for obtaining permissions for use from third parties as needed.



JOHNS HOPKINS
BLOOMBERG
SCHOOL *of* PUBLIC HEALTH

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—analogue
- 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