

GLOSSARY OF HEALTH ECONOMIC TERMS

Acquisition cost

The purchase cost of a drug to an agency, person or institution.

Allocative efficiency

Occurs when, given the existing income distribution, resources cannot be reallocated so that they make one person better off (in terms of gaining greater satisfaction from the goods and services they consume) without making at least one other person worse off. This is also known as Pareto efficient.

Average cost

Total cost divided by the number of units of output.

Benefit

Anything that results that is of value.

Capital cost

The cost to purchase the major capital assets required by the programme, for example, equipment, buildings and land.

Cost

All resources that have alternative uses (see also definition of opportunity cost).

Cost benefit analysis (CBA)

Expresses all gains and sacrifices in common units (usually money), allowing a judgement to be made of whether, or to what extent, an objective should be pursued.

Cost consequences analysis (CCA)

A form of economic evaluation where the whole array of outputs are presented alongside the costs, without any attempt to aggregate the outputs.

Cost effectiveness analysis (CEA)

Focuses on the best way of meeting a stated objective given that some means of pursuing it is going ahead. The objective of the programme is not being, and cannot be questioned.

Cost minimisation analysis (CMA)

The consequences of competing interventions are identical, so comparison can be made on the basis of resource costs alone. The aim is to determine the lowest cost way of achieving the same outcome.

Cost utility analysis (CUA)

A form of cost effectiveness analysis where benefits are measured in terms of a utility measure such as the quality adjusted life year (QALY).

Decision-analysis

Explicit quantitative approach for prescribing conditions under conditions of uncertainty.

Demand

The quantity of a good buyers wish to purchase at each conceivable price.

Direct costs

All resources that are consumed in the provision of a health promotion programme. These may be incurred by the health promotion service, community or clients.

Discount rate

The rate chosen to express the strength of preference over the timing of costs and benefits (see discounting and time preference).

Discounting

The most widely accepted method of incorporating time preference into the evaluation of a programme when the costs and benefits do not occur at the same point in time.

Economic evaluation (Economic appraisal)

The comparison of alternative courses of action in terms of their costs and consequences, with a view to making a choice.

Effectiveness

The extent to which programmes achieve their objectives, in real-life settings.

Efficacy

The effect of an intervention under ideal conditions, with participants fully complying with the programme.

Efficiency

Maximising the benefit to any resource expenditure, or minimising the cost of any achieved benefit.

Equality

Equal shares of some good or service.

Equity

Fair distribution of resources or benefits among different individuals or groups.

Gross costing

Allocates a total budget to specific services according to rules.

Gross employment cost

The total cost of employing an individual i.e. gross salary, plus National Insurance and Superannuation.

Health effects

These relate to specific outputs and outcomes resulting from a programme.

Health status measure

A single instrument that measures different aspects of health-related quality of life.

Health status index

An index that uses weights to compare different levels of health status and used in the derivation of QALYs.

Health years equivalent

The hypothetical number of years spent in perfect health that are considered comparable to the actual number of years spent in a particular state of health.

Incremental cost

The difference between the cost of a treatment and the cost of the comparison treatment.

Incremental cost effectiveness ratio (ICER)

Obtained by dividing the difference between the costs of the two interventions by the difference in the outcomes i.e. the extra cost per extra unit of effect.

Indirect costs

These relate to the losses to society incurred as a result of participating in the programme, such as the impact on production, domestic responsibilities and social and leisure activities.

Intangible benefits

These relate to issues such as improvements in health and well-being and / or quality of life.

Intangible costs

These relate to issues such as anxieties and impact on quality of life resulting from participation in the programme. These are generally difficult to measure and value and are often not included in the construction of the cost profile of an economic evaluation.

Margin

The last unit of production or consumption - although often relates to change of more than one unit.

Marginal analysis

The evaluation of the change in costs and benefits produced by a change in production or consumption of one unit. Less formally it is often used to refer to the change in costs and benefits produced by the particular change in scale of production or consumption which is under consideration.

Marginal benefit

The extra benefit obtained when output is increased by one unit.

Marginal cost

The extra cost that results when output is increased by one unit.

Markov model

A particular type of decision analysis which allows for the transfer between different health states over a period of time.

Microcosting

An estimate is made for each element of resource use within the programme and a unit cost is derived for each.

Opportunity cost

the cost of a unit of a resource is the benefit that would be derived from using it in its best alternative use

Outcome

The results and value of the intervention e.g. intermediate measures such as number of quitters, or long term outcomes such as life-years saved.

Output

The activities that result from the use of resources in the programme e.g. number and type of materials given, number of client-professional contacts and their type.

Perspective

The point of view from which an analysis is carried out. The social welfare perspective considers costs and benefits from the point of view of society.

Present values

The value today of future costs or benefits (after adjusting by discounting).

Quality Adjusted Life Years (QALYs)

Calculated by adjusting the estimated number of life-years an individual is expected to gain from an intervention for the expected quality of life in those years. The quality of life score will range between 0 for death, to 1 for perfect health, with negative scores being allowed for states considered worse than death.

Resources

Things which contribute to the production of output. Money gives a command over resources but is not a resource per se.

Scarcity

There will never be enough resources to satisfy human wants completely.

Sensitivity analysis

A process through which the robustness of an economic model is assessed by examining the changes in results of the analysis when key variables are varied over a specified range.

Social efficiency

Refers to a situation where the benefits to those that gain from the reallocation of resources are greater than the losses incurred by those who are made worse off, such that the gainers could compensate the losers and still be better off.

Survival effects

These relate to changes in life expectancy which may result from the programme and measures such as life years saved and lives saved.

Technical efficiency

Assesses the best way of achieving a given objective. Output is maximised for a given cost, or the costs of producing a given output are minimised.

Time preference

Individuals are not indifferent to the timing of costs and benefits, preferring benefits sooner and costs later.

Utility

A measure of the 'satisfaction' (benefit) obtained from consuming goods and services.

Utility effects

In an attempt to generate measures which can be used to compare outcomes across all healthcare interventions, considerable effort has been invested in measures of health-status and utility.

Willingness to pay

This technique asks people to state explicitly the maximum amount they would be willing to pay to receive a particular benefit. It is based on the premise that the maximum amount of money an individual is willing to pay for a commodity is an indicator of the value to them of that commodity.