Introducing health economics in economics principles courses can show the value of economic thinking in analyzing important public policy issues (Cutler 2017). It can also show undergraduate students that economists can have different policy perspectives without being “mean-spirited nor ignorant of the relevant literature.” (Cutler 2017, p. 219) This study will identify locations in Mankiw’s Principles of Microeconomics textbook (9th edition) where relevant health economics concepts and debates can be introduced to illustrate the major microeconomic ideas that the text covers. Application of health economics concepts in introductory microeconomics can challenge students to apply economic theory to current policy issues and to illustrate complexity of real-life policies.

**Introduction**

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**Ten Principles of Economics**

Why do most people not engage in extreme dieting or exercising? While we often say there is no such thing as too much of a good thing, there is such thing as too much of good health when we consider opportunity cost. Most people diet and exercise moderately but do not dedicate most of their days to health improving activities.

**Supply and Demand: How Markets Work**

The Market Forces of Supply and Demand chapter introduces the concept of the law of demand. RAND health insurance study shows that even demand for medical care follows the law of demand: as out-of-pocket price of medical care increases, health care utilization falls. Price elasticity of demand for medical care is 0.2 but more elastic for dental and preventative care and less elastic for hospital care. (Manning et al. 1987)

**APPLICATION: Moral Hazard of Health Insurance**

Greg’s demand for physician visits is \( V = 8 - 0.04P \), where \( V \) is the number of physician visits and \( P \) is the price per visit. Physicians will provide as many visits as demanded with a price of $100 per visit. How many visits would Greg make when he is uninsured? What are his medical care expenditures?

Now assume that Greg can buy health insurance policy at the beginning of the year. The insurer will cover all physician visits without copayments or deductibles. How many visits would Greg make? What is the increase in health care expenditures due to insurance?

**Explain moral hazard of health insurance.**

**Calculate deadweight loss (dwl) of moral hazard.**

**References**


