

- Definition
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- Circular Flow of Economic Activity
- Using Economics to Study Health Issues
- Nature and relevance of Economics to
- Health and Medical care.

## MODULE 1: NATURE AND SCOPE OF HEALTH ECONOMICS

# Definition

**Health economics** is a branch of economics concerned with issues related to [efficiency](#), effectiveness, value and behavior in the production and consumption of [health](#) and [healthcare](#).

Health economics is important in determining how to improve health outcomes and lifestyle patterns through interactions between individuals, healthcare providers and clinical settings

In broad terms, health economists study the functioning of healthcare systems and health-affecting behaviors such as smoking, diabetes, and obesity.

**Health and  
development**

**Efficiency of  
health services**

**Financing  
of health  
services**

**HEALTH  
ECONOMICS**

**Allocation  
of resources**

**Economic  
regulation  
in health**

# Definition of Economics

Economics is defined as a technique or a tool of balancing most of the needs which can be termed as a credit and the limited resources, which can be termed as a debit. Keeping a proper and healthy balance between these two terms is nothing but economics.

**Macroeconomics:** Macro means large. Macroeconomics deals with large economic-related issues like a whole entity or a big organization or the entire nation or the whole city or a complete project etc. Inflation, annual budgets, scarcity, poverty, etc. can come under macroeconomics.

**Microeconomics:** On the other hand, micro means small. Microeconomics deals with small units, single apartments, individual plants, household activities, part of your project, a single event, etc. that come under the microeconomics.

# Health Care Systems

According to the World Health Organisation a health system consists of all organisations, people and actions whose primary intent is to promote, restore or maintain health.

This includes efforts to influence determinants of health as well as more direct activities that improve health.

# WHAT IS HEALTH CARE ECONOMICS

Health care economics is a term used to describe the various factors that converge to influence the health care industry's costs and spending. As a field of study, health care economics seeks to understand the role that individuals, health care providers, insurers, government agencies, and public and private organizations play in driving these costs.

Health care economics can be approached from several perspectives depending on the specific challenge you're facing. For example, in the Harvard Online course [Health Care Economics](#), Harvard Medical School faculty organize the discussion around six key areas:

- Spending growth
- The role of the patient
- The role of the provider
- The impacts of risk and insurance
- Benefits design
- Payment reform

***Spending Growth*** Understanding the drivers of this health care spending, how spending varies across different regions, and the role technology can play is crucial for anyone working in the industry.

***The Role of the Patient*** The patient plays a critical role in driving health care spending, for both themselves and others. By choosing one prescription or treatment over another, opting for elective surgery, or using too much or too little care, individual patients can significantly impact supply, demand, and pricing for the entire system.

***The Role of the Provider and Health Care Production*** While the patient serves as the demand side of the equation, health care providers serve as the supply side. What services and treatments providers choose to offer and how much they charge for them are typically directly related to the patient's demands. Yet, several other factors may influence this decision as well.

***Risk & Insurance*** Health insurance is a means for individuals, employers, and society at large to manage costs related to health care. Ensuring stable insurance markets requires a thorough understanding of risk and risk pools.

***Benefit Design*** The design of employee benefits packages can be an effective means of controlling health care costs by forcing individuals to make more efficient decisions about their care. For example, an insurance plan which features high deductibles can serve to prevent frivolous spending while still ensuring protection in the face of medical emergencies.

***Payment Reform*** Similarly, health care providers can be compensated for their time and services in many different ways. Fee-for-service, episode-based payment, and population-based payment models can all be leveraged to promote effective decision-making among providers.



# Basic Economic Concepts

it is important to understand the basic economic terms and concepts in detail to get the awareness of maintaining a proper budget for the house or task or any organization. We have five fundamental economic concepts in general. They are as follows-

Supply and demand

- Scarcity
- Opportunity cost
- Time value of money
- Purchasing power

**Supply and Demand:** - It is one of the basic economic concepts and theories. Supply and demand can be seen everywhere in our daily life. To understand this concept more clearly, let's take a common example like food products. If we take food and drinks, they need to travel from the farmer to the consumer with multiple mediators. So, the price may vary. The price of a particular product depends upon the supply and demand of that product.

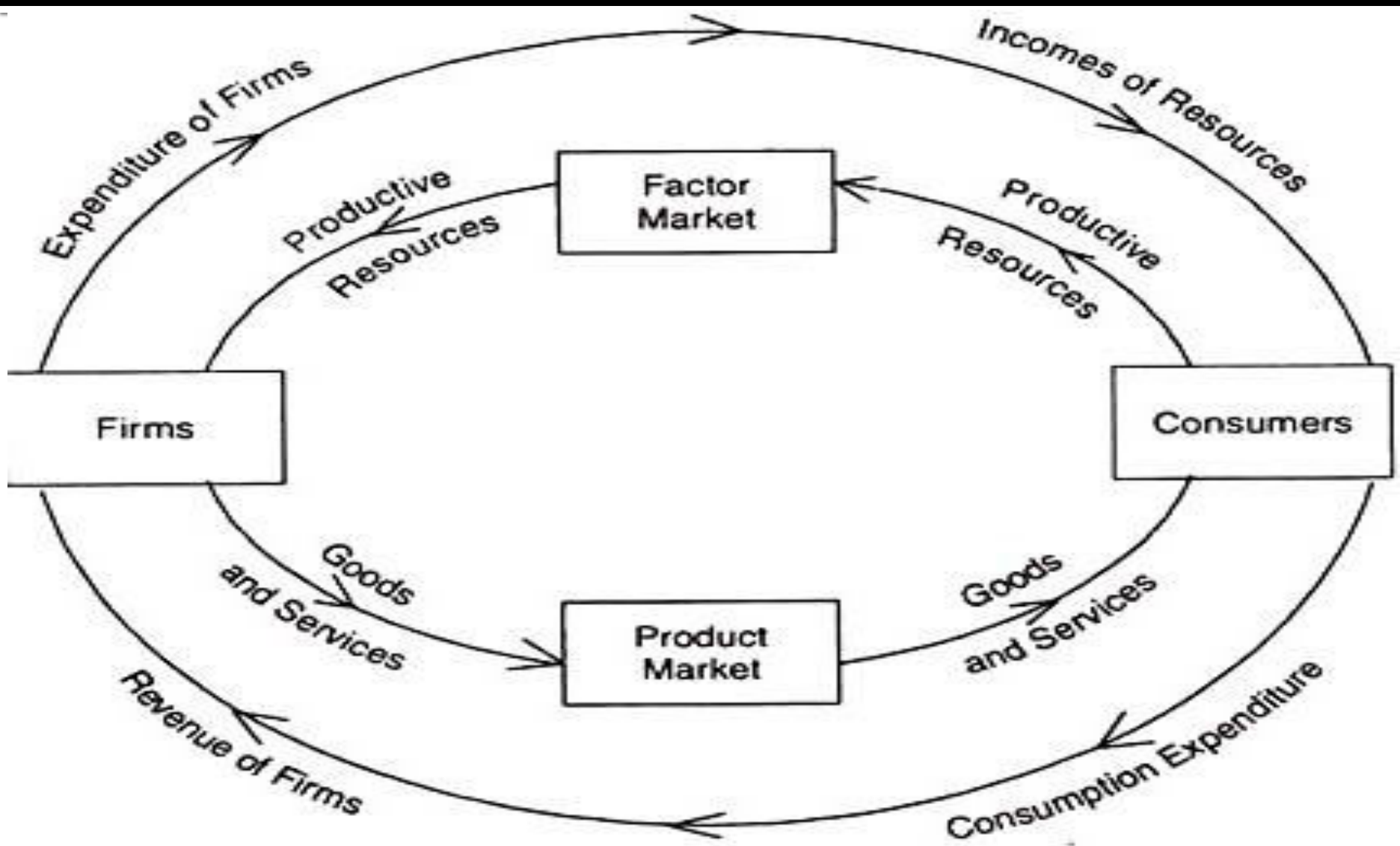
**Scarcity:** - This is also the basic concept of economics, which also acts as a factor of demand and supply. Because the supply doesn't meet the demand, then the condition is termed as a scarcity of that particular [utility](#), whether it is food or product or money or any other.

**Opportunity Cost:** - It is one of the 5 basic concepts of economics. It is like a trade-off market. It is also termed as an exchange policy like if we want something we need to give others in the form of cash or product or whatever it is. We are creating an opportunity to sell our goods in return for getting our requirements.

**Value for Money:** - It is one of the important concepts in economics because the value of money may vary from time to time based on different factors. It refers to utility that is derived from every money a consumer spends.

**Purchasing Power:** - Another fundamental economic concept is the purchasing power of consumers because if we take gold as an example, even though the price of gold is reduced, the buyer may not have the ability to purchase food at that particular time. If he can purchase some amount of gold, the price may increase. That ability of the consumer is called the purchasing power.

# Circular Flow of Economic Activity



# Introduction to the Circular Flow of Economic Activity:

The all pervasive economic problem is that of scarcity which is solved by three institutions (or decision-making agents) of an economy. They are households (or individuals), firms and government. They are actively engaged in three economic activities of production, consumption and exchange of goods and services. These decision-makers act and react in such a manner that all economic activities move in a circular flow.

# Households:

Households are consumers. They may be single-individuals or group of consumers taking a joint decision regarding consumption. They may also be families. Their ultimate aim is to satisfy the wants of their members with their limited budgets.

Households are the owners of factors of production—land, labour, capital and entrepreneurial ability. They sell the services of these factors and receive income in return in the form of rent, wages, and interest and profit respectively.

# Firms:

The term firm is used interchangeably with the term producer in economics. The decision to manufacture goods and services is taken by a firm. For this purpose, it employs factors of production and makes payments to their owners. Just as household's consumer goods and services to satisfy their wants, similarly firms produce goods and services to make a profit.

The term 'firm' includes joint stock companies like DCM, TISCO etc., public enterprises like IOC, STC, etc., partnership concerns, cooperative societies, and even small and big trading shops which do not manufacture the commodities they sell.

# Government:

The government plays a key role in all types of economic systems—capitalist, socialist and mixed. In a capitalist economy, the government does not interfere. It simply establishes and protects property rights. It sets standards for weights and measures, and the monetary system.

In a socialist economy, the role of the government is very extensive. It owns and regulates the entire production and consumption processes of the economy, and fixes prices of goods and services. In a mixed economy, the government strengthens the market system.





# ***MODULE 2: 10 HOURS***

## ***HEALTH CARE AND MACRO ECONOMICS***

***Unique nature of health as an economic activity***

***Demand and supply of healthcare***

***Health as a consumer and investment good***

***Macro economic theory and policy***

***Valuation & Measurement of Health***

***Monetary evaluation of length of life***

***Valuation of the quality of life***

***Economic Evaluation in healthcare***

***Understanding of welfare economics.***



# ***Health Economics. Concepts***

Health economics is an important element of health policy, both at the strategic (macroeconomics) and tactical levels (microeconomics).

- ***Macroeconomics*** in health deals with overall financing and allocation of health resources, while
- ***Microeconomics*** compares alternative approaches to dealing with specific health issues (decision calculation).
- Monetary resources for health are limited in all countries, and difficult choices have to be made in their allocation.
- Management of health care requires an understanding of use of resources, priorities, and trade-offs in health.

# ***BASIC CONCEPTS IN HEALTH ECONOMICS***

- Expenditure of resources (in terms of financial and human resources), both direct and indirect, is targeted to a health program.
- This is expected to produce health benefits or utilities, which can also be both direct and indirect.
- Health benefits may be expressed in terms of a direct reduction in morbidity and mortality, or as improved productivity and quality of life.

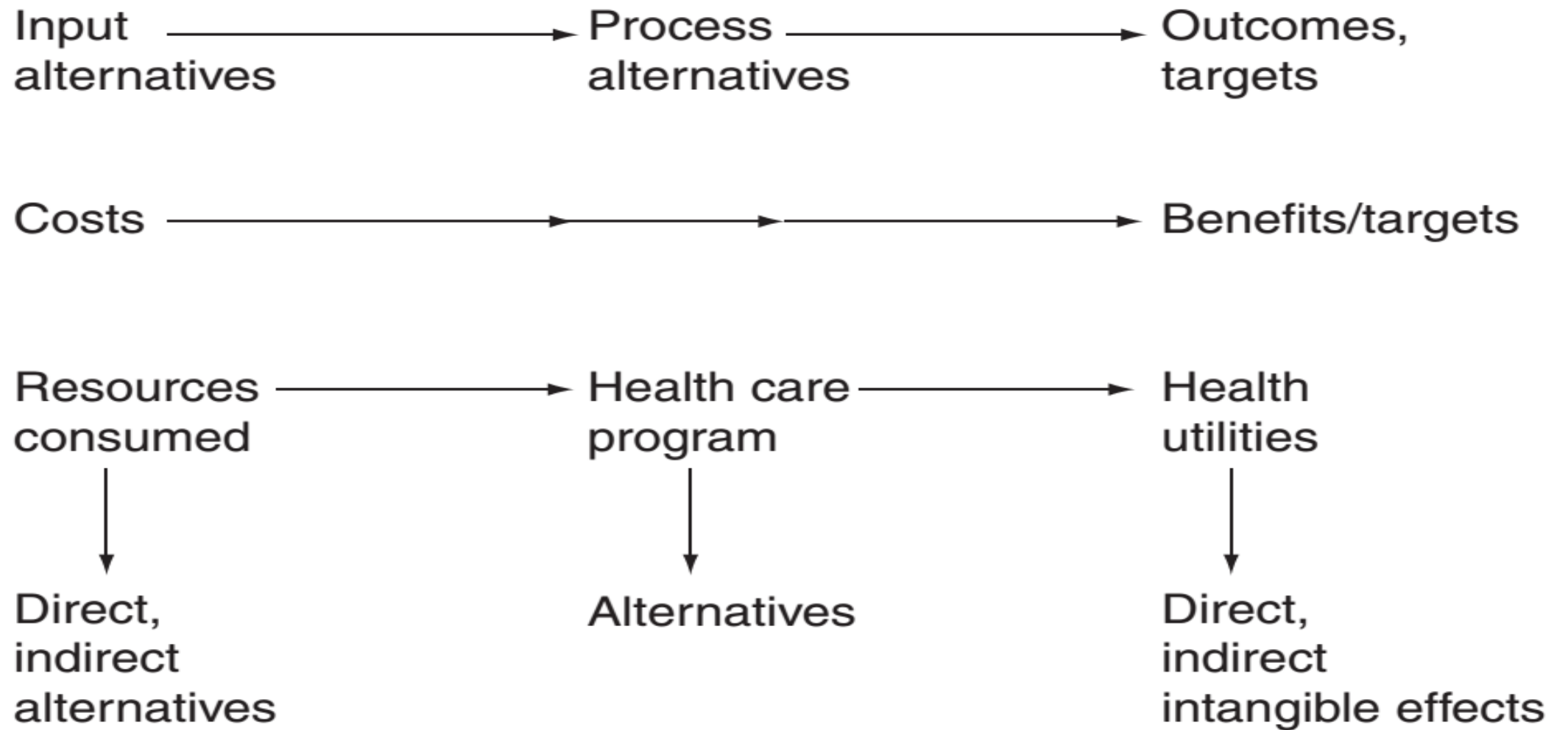
# ***BASIC CONCEPTS IN HEALTH ECONOMICS***

- ▶ Measurement of both input and output is an essential part of health management.
- ▶ Health inputs include resources such as expenditures on buildings, hospital or nursing home beds, equipment, personnel, home care, ambulatory care, and preventive programs.
- ▶ Other elements of health costs, not directly related to the provision of health services but resulting from it, include patient's travel time, loss of work time for both patients and caregivers, loss of full functioning years of life, and loss of quality of life.
- ▶ The “input-output” theory of health economics may sound simplistic, but it provides a useful marker when examining the benefits and costs of a specific health intervention. Alternatives can be examined and analysis of their cost- effectiveness made, in order for decision makers to select the most suitable ones.

# ***BASIC CONCEPTS IN HEALTH ECONOMICS***

- ▶ All societies have limited resources and must, according to politically determined priorities, provide funds for health care in competition with funds for education, defense, agriculture, and others.
- ▶ *The availability of limited funds requires making choices.*
- ▶ These choices reflect the overall *political commitment* to health and should, as far as possible, be based on an objective assessment of costs and benefits of available options.
- ▶ The components of economic evaluation in health care are seen in Figure:

# *Economic models of health evaluation: resources- programs-benefits. Source: Commonwealth Fund*





# ***Economics of Healthcare:***

The economics of healthcare is about the expenses regarding the spending on physicians, basic infrastructure (like hospitals), availability of nurses and dentists, pharmaceutical drugs and many more. Due to some reforms the healthcare system has been changed and required government intervention as well.

# *HEALTH for ECONOMY*

- ▶ The wide acceptance of the vital role of health in economic development is based on the concept that a healthy population is not only a well-meaning social goal based on human rights, but, like an educated population, is essential to the development of a strong economy.
- ▶ Healthier populations are better workers and contributors to economic growth.
- ▶ Healthier children learn better in schools and thus, also have prospects for contributing to economic development of their country.

# *HEALTH for ECONOMY*

Good health is a crucial part of well-being;

- Spending on health can be justified on purely economic grounds;
- Improved health contributes to economic growth:
  - It reduces production loss by worker illness;
  - It permits use of natural resources that have been inaccessible because of disease;
  - It increases the enrollment of children in school and makes them better able to learn;
  - It frees for alternative uses resources that would otherwise have to be spent on treating illness;
- Sound policy in financing and resource allocation is essential to achieve good health.
- The World Bank calls on governments to increase spending on health and also to foster an atmosphere in which families and communities do the same.
- It calls for competition and diversity in health care, based on an economic rationale, with health development based on “a basket of essential public health and clinical services”

# *Essential Cost-Effective Health Services for Developing Countries: World Bank*

## Public health

1. Immunizations EPI (Expanded Programme of Immunization. ), polio, measles, hepatitis B, yellow fever, vitamin A, iodine supplements (later expanded further);
2. School-based health services;
3. Information for family planning and nutrition;
4. Programs to reduce tobacco and alcohol consumption;
5. AIDS prevention.

# *Essential Cost-Effective Health Services for Developing Countries: World Bank*

## Clinical services

1. Pregnancy-related care;
2. Family planning;
3. Tuberculosis control;
4. STI control;
5. Management of diseases of children — ARI, diarrheal diseases, measles, malaria, malnutrition.

## Notes:

ARI = Acute respiratory infection.

STIs = Sexually transmitted infections . Source: World Bank.

# *What are the factors affecting the supply and demand of services in the healthcare*

1. The level of spending and availability of funds.
2. The level of growing population and consumption spending.
3. GDP per capita.
4. Demand for 'Health insurance policies'.
5. The social and economic perspective.
6. The hygiene factor and the physical environment.

# *Demand for healthcare*

Demand requires people to seek a service they can afford and are willing to pay for it. The need for healthcare is the care that doctors believe is essential for a person to stay healthy or healthy. Sometimes, patients think they need healthcare, but doctors believe they cannot benefit from such care. Sometimes the doctor believes that there is a medical need, but the patient does not consult his doctor because he prefers not to receive treatment or that he has not recognized the need. Even if patients have as much knowledge as doctors, their demands may be different from their needs.

# *The following factors affect the demand for healthcare:*

- Needs (based on patient perception)
- Patient preferences
- Price or cost of use
- Income
- transportation cost
- waiting time
- Quality of care (based on patient perception)

# ***SUPPLY/ NEED/ DEMAND AND UTILIZATION OF HEALTH SERVICES***

- Supply and demand are fundamental concepts of economics, particularly of a market economy.
- **Demand** refers to the quantity of a product or service wanted by buyers, and this relates to the price of the service and the availability of supply.
- **Supply** is the quantity of the service or product available.
- Demand is affected also by price, which if too high will reduce demand for that specific product.
- In a traditional market situation, promotion, supply, price, and demand are interactive. In health care, price and demand are not the same as products on a free market. Supply may be limited by government regulation and price is offset by third-party payment through insurance mechanisms.

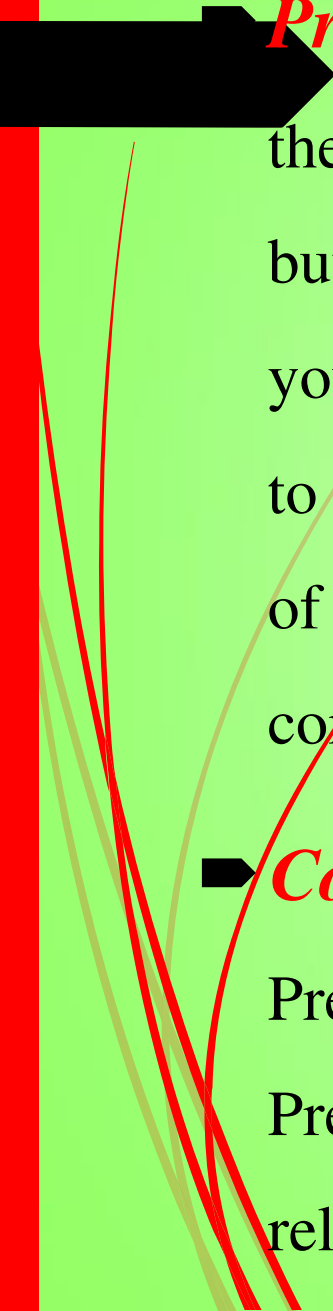
# *The Supply of Health Care*

We now turn to the supply side of health care. Economists often talk of output being produced using a production function that uses labor, capital, and intermediate inputs. What is the production function of a hospital?

- The labor in a hospital includes doctors, surgeons, orderlies, technicians, nurses, administrative staff, janitors, and many others.
- The hospital buildings are part of the hospital's capital stock. In addition, hospitals contain an immense quantity of other capital goods, such as hospital beds and diagnostic tools—everything from stethoscopes to x-ray machines.
- Intermediate inputs in a hospital include dressings for wounds, and pharmaceutical products, such as anesthetics used for operations.
- Other sectors of the health-care industry likewise employ labor, capital, and intermediate inputs

# *Health as Investment*

- Everyone prefers being healthy to being sick. The demand for health care is in part an expression of this preference. One thing that makes health care different from most other goods and services, though, is that it is simultaneously an investment. Money you spend on being healthy today will also benefit you in the future. There are several different ways in which spending on health care represents an investment.
- ***Mortality.*** One clear impact of our health-care choices can be seen in terms of mortality rates. Mortality rates measure how likely we are to die at different ages. The typical young person has about a 1 in 10,000 chance of dying in a given year, whereas the typical old person has more than a 1 in 10 chance of dying.



***Productivity.*** Being healthy also means that you can work and earn wages. One of the costs of poor health is lost days at work. This is a cost not only to the individual but also to society as a whole: the economy's population is producing less output. If you are in poor health, then you risk losing wages for the days when you cannot come to work. Many employers provide insurance for these lost wages through the provision of sick days: if you are sick, you are not expected to work but you will still be compensated up to a contracted number of days per year.

➔ ***Consumer's Preferences:*** Demand also depends on consumer preferences. Preferences are people's tastes and attitudes towards different goods and services. Preferences are formed based on previous experiences, genetic factors, propaganda, religious beliefs, and other cultural and social factors

# *Macro economic theory*

McDougal highlighted six primary economic theories that drive patient decision-making when purchasing healthcare services: **risk aversion, adverse selection, moral hazard, cost theory, agency theory and rational choice theory.**

**Risk aversion:** People are either risk seekers or risk avoiders, and they may react differently depending on the situation. And McDougal is no different: “In terms of my professional activities, I tend to be a risk seeker,” he related. “I tend to seek opportunities to do things different, to do things better. But in my personal life, I'm more of a risk avoider. I like things to be pretty consistent. ... I like a routine.”

**Adverse selection:** Adverse selection suggests that individuals are apt to purchase a product if they expect to use it more often. Unlike the millennial example above, individuals who think they have a better chance of needing medical care are more likely to purchase health insurance and vice versa.

**Moral hazard:** Moral hazard posits that consumers will purchase more of an item if they don't have to pay full cost for it. Consequently, if patients have a lower copay for a doctor's visits, they will likely see their physician more often.

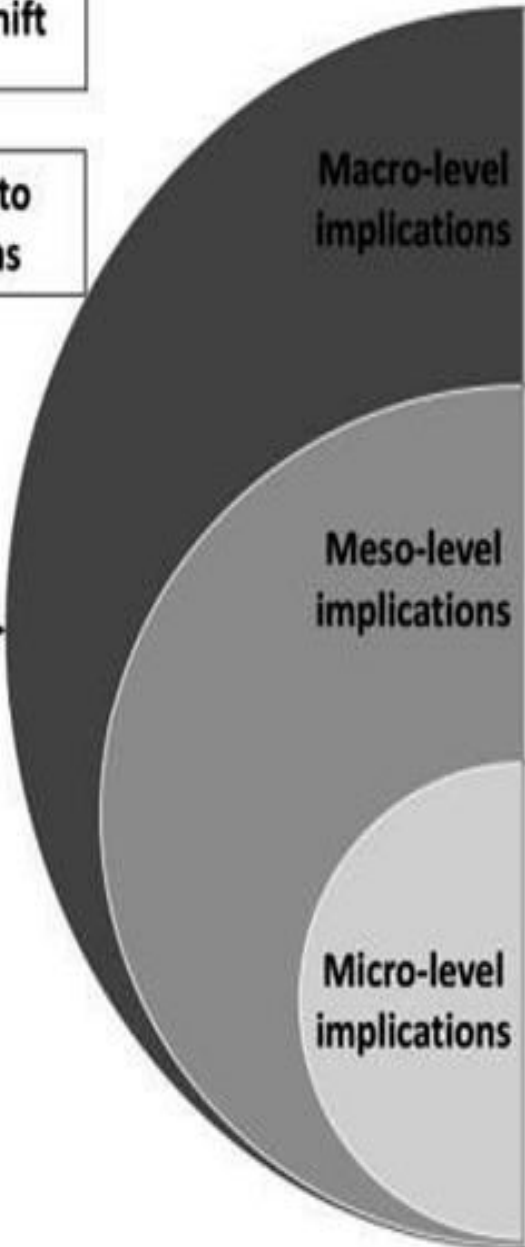
**Cost theory:** Cost theory falls into two categories: opportunity cost and sunk cost. The former is the money an individual would have spent on something else if he or she didn't have to purchase an item. For example, what happens if a practice's X-ray machine breaks down and the practice has to spend \$150,000 to replace it? Where would that money have been allocated? "Would you have bought more or newer furniture for your waiting room?" McDougal asked. "We don't often think about this when we're considering some of our capital

*Agency theory* Agency theory is when a purchaser relies on another party to help make a purchase decision or to make a purchase for him or her. In this case, a purchaser would depend on the agent for his or her expertise and to provide accurate information. The purchaser does not typically verify the information; rather, trust is explicitly placed in the agent to decide.

*Rational choice theory* Rational choice theory helps patients make decisions when making purchases. In theory, they won't make a purchase decision until they have enough information concerning all their purchase options. As McDougal conveyed, "We're assuming that individuals will always make prudent and logical decisions to purchase that provides them with the highest amount of personal utility."

Response shift

Responses to PROM items



Levels of decision-making

Potential implications of response shift

Considerations for decision-making

**Health Policy Level**

- \* Healthcare coverage, including provision and reimbursement of health services

Unmet population healthcare and service delivery needs

Critically reflect on the conceptualization of health (e.g., biomedical vs. wellbeing). If wellbeing definition is used, response shift may not necessarily need to be controlled for

**Healthcare Institution Level**

- \* Quality improvement
- \* Performance monitoring
- \* Accreditation of healthcare organizations

Invalid comparison of organizations and undue accreditation

Examine response shift at individual unit of analysis before aggregating data, and make statistical adjustments

**Patient Care Level**

- \* Different treatment options
- \* Goals of care
- \* Continuation or addition of interventions/support

Inadequate care or over/under-treatment due to adaptation or change in patients' preference and/or goals

PROM data should be interpreted with the patient in dialogue to ascertain the possibility of response shift

# *Why measure health?*

- ▶ **'Health' is the 'product' of health care not ops performed, no patients treated etc**
- ▶ **Clinical reasons - effectiveness**
- ▶ **Economic reasons – efficiency**

## **Length of life**

- ▶ **Mortality (numbers, rates, SMRS)**
- ▶ **Life expectancy**
- ▶ **Life years lost**

## **Quality of life**

- ▶ **Numerous QoL measures (generic and specific)**
- ▶ **• SF-36, Nottingham Health Profile, Guttman Scale, Rotterdam Symptom Checklist, Hospital anxiety and depression scale etc....**

# *Limitations of measurements/need for valuation*

- ▶ Confines response to questions posed - may not incorporate all relevant aspects of health
- ▶ Multitude of instruments compatibility?
- ▶ Ambiguity in assessing overall improvement of detriment in health
- ▶ Efficiency value of benefits > value (opp) cost



# *Valuation versus Measurement*

- ▶ Value is determined by benefits sacrificed elsewhere
- ▶ Valuation requires wade-off benefits  
measurement does not

# ***What is Economic Evaluation?***

Economic Evaluation is the comparative analysis/evaluation of two or more interventions in terms of their cost and consequences

- It is the evaluation or assessment of different programs based on their input given Vs. results/outcomes generated
- Economic evaluation is also known as economic appraisal
- The most fundamental/basic concept of these economic evaluations are that both the costs and benefits of all the available options are taken into account
- However, the cost and benefit vary according to the viewpoint adopted in the analysis

# *Importance of Economic Evaluations:*

- At present, resources are being limited while on the other hand, costs of programs are rising in addition with more innovative and technological advancements. Thus, economic evaluation has become a necessary and a dire need
- Economic evaluation also helps to prioritize the programs and make the best decision for optimal resource allocation
- Economic evaluations are important tools for assessing economic feasibility and efficiency of health interventions

# *Types/Methods of Economic Evaluation:*

- There are major 4 different types of economic evaluation methods. They are:
  - Cost Benefit Analysis (CBA)
  - Cost Effective Analysis (CEA)
  - Cost Utility Analysis (CUA)
  - Cost Minimization Analysis (CMA)
- Each of this analysis involves systematic identification and measurement of the costs and consequences of the interventions

# ***Cost Benefit Analysis (CBA)***

- In this method of evaluation, cost of the intervention is compared with the benefit incurred from the intervention
- Both costs and benefit is measured in terms of monetary units
- The net benefit is measured as:  $\text{Net benefit} = \text{Benefit} - \text{Costs}$
- Therefore, if the benefit exceeds the cost incurred during the intervention, the intervention should be continued

## ***Cost Minimization Analysis (CMA)***

- In this method of analysis, costs of two or more interventions achieving identical outcome is measured. The intervention incurring the lowest cost is then chosen
- It should be strictly noted that the intervention can only be conducted when the outcomes of the comparing interventions are same

# *Cost Effective Analysis (CEA)*

- ▶ In this method of analysis, cost is measured against the effectiveness of the intervention (effectiveness is the final consequence)
- ▶ The consequences of the comparing interventions may vary here (different than cost minimization analysis where the outcomes of interventions were identical). However, these consequences can be expressed in common natural units like life years gained, saved years of life etc or improvement in functional status (units of cholesterol, blood pressure etc.)
- ▶ The limitation of this analysis is that it is difficult to compare the interventions with differing natural effects. Eg: interventions which are focused on looking at life years saved cannot be compared with other interventions which are focusing on improving the physical functioning

# *Cost Utility Analysis (CUA)*

- ▶ In this method of analysis, cost incurred in the intervention is measured against the “utility” related to health
- ▶ Utility refers to the Quality Adjusted Life Years (QALY), Disability Adjusted Life Years (DALY)
- ▶ This method is specially used when there are multiple objectives of the program and when both quality of life and quantity of life are important to know
- ▶ It is also used to make policy level decisions

# *Welfare Economics*

Welfare economics forms an important part of microeconomics that analyses the impact of resource allocation and economic policies and actions on the well-being of people. It studies the structure of the economy and the markets in connection with the people and society. In essence, it focuses on how various economic scenarios contribute to social welfare and how the contribution varies.

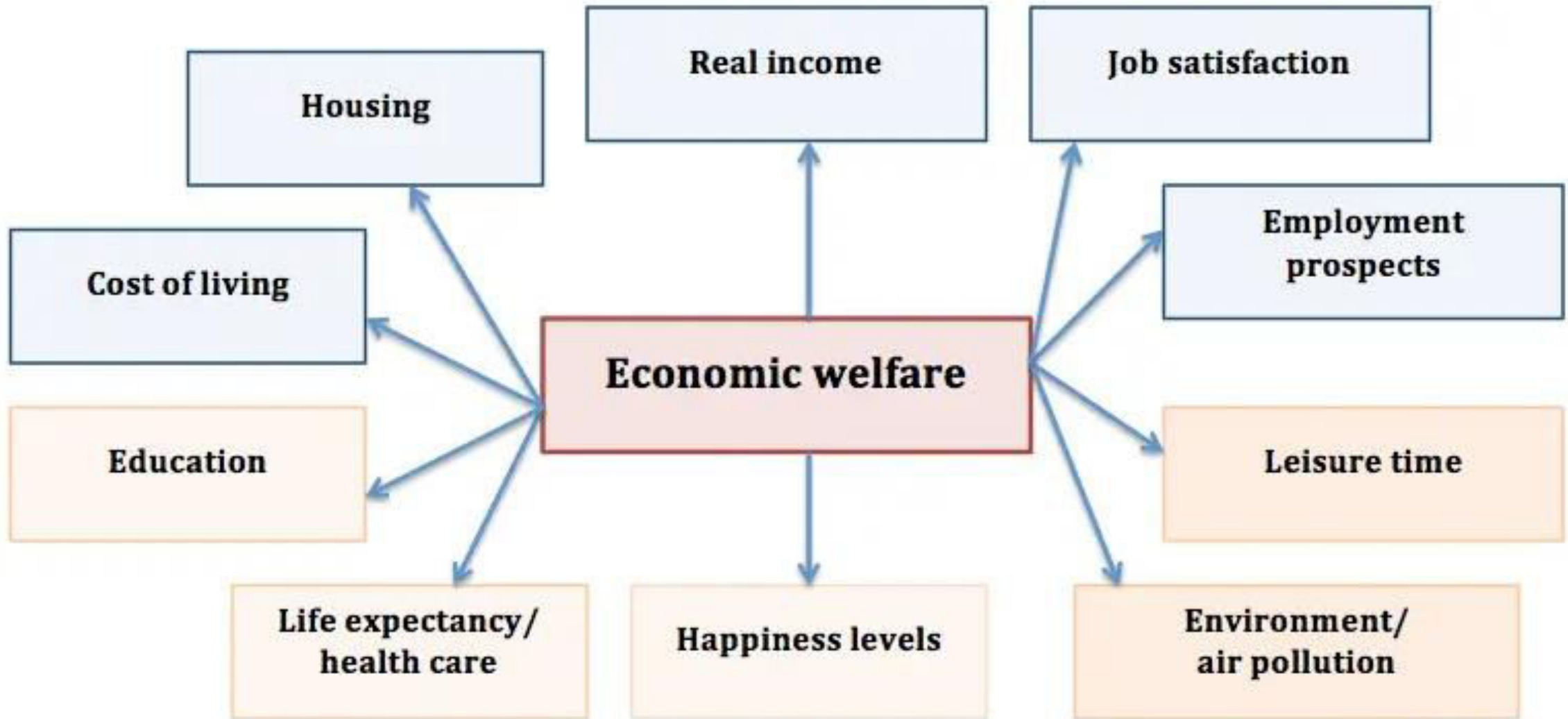
- Welfare economics meaning reflects its fundamental ideology that is the welfare of society: the health, happiness, and financial well-being of the whole people. Therefore, the growth measurement is not confined to GDP or real income but includes welfare factors.
- Definition of economic welfare: The level of prosperity and quality of living standards in an economy. Economic welfare can be measured through a variety of factors such as GDP and other indicators which reflect the welfare of the population (such as literacy, number of doctors, levels of pollution e.t.c)

# *Importance of Welfare Economics*

Some of the importance discerned from the interpretation of the concepts are the following:

- ▶ It signifies the importance of optimal use of scarce resources to fulfill human needs.
- ▶ Favors the market structure nurturing maximum consumer surplus and producer surplus.
- ▶ It addresses the market distribution and structures and their effect on all classes of society.
- ▶ It ensures that the diverse problems are addressed and solved through resource allocation instead of allocating resources and finances to areas in dire need or can fix themselves.
- ▶ Throws insight into public finance, cost-benefit analysis, and the impact of government policies.
- ▶ Prioritize policies and tools to guide the system to maintain the balance between society and its citizens. The policies should have the potential to realize positive economic and social outcomes for society.
- ▶ Economists formulate and guide policies to allocate funds and resources appropriately to the promising areas for society.
- ▶ It signifies the importance of government intervention and invisible market forces to stabilize the economy.

# Factors influencing economic welfare



# *Factors influencing economic welfare*

**Real income** – influencing potential consumption

- **Employment prospects** – unemployment significant cost
- **Job satisfaction** – satisfaction at work as important as income and wage
- **Housing** – High income but unaffordable housing diminishes economic welfare. Good, cheap housing essential to economic welfare
- **Education** – opportunities to study through lifetime, influence welfare
- **Life expectancy and quality of life** – access to healthcare, also are lifestyles healthy, e.g. levels of obesity/smoking rates
- **Happiness levels** – normative judgements on whether people are happy.
- **Environment** – economic growth can cause increased pollution, which damages health and living standards.
- **Leisure time** – high wages due to working very long hours diminishes economic welfare. Leisure has economic value.

**MODULE 3: HEALTHCARE AND MICROECONOMICS 10 HOURS****Current Assets**

Assets that can easily transform into cash in a single fiscal year or operating cycle are current assets. Current assets have a life of less than a year and support ongoing operational costs and investment.

Current assets include cash, cash equivalents, accounts receivable, stock inventory, marketable securities, pre-paid liabilities, and other liquid assets. Current Assets may also be called Current Accounts.

**Types of Current Assets**

Many assets can be considered current by different businesses throughout all industries. In general, most industries group their current assets into these sub-accounts; however, you might see others:

- Cash and Cash Equivalents
- Marketable Securities
- Accounts Receivable
- Inventory
- Prepaid Liabilities/Expenses
- Other Short-Term Investments

On the balance sheet, the Current Asset sub-accounts are normally displayed in order of current asset liquidity. The assets most easily converted into cash are ranked higher by the finance division or accounting firm that prepared the report. The order in which these accounts appear might differ because each business can account for the included assets differently.

**Cash and Cash Equivalents**

By definition, assets in the Current Assets account are cash or can be quickly converted to cash. Cash equivalents are certificates of deposit, money market funds, short-term government bonds, and treasury bills. To qualify as current assets, these items must not have any restrictions that inhibit their short-term liquidity.

**Marketable Securities**

Marketable Securities is the account where the total value of liquid investments that can be quickly converted to cash without reducing their market value is entered. For example, if shares of a company trade in very low volumes, it may not be possible to convert them to cash without impacting their market value. These shares would not be considered liquid and, therefore, would not have their value entered into the Current Assets account.

**Accounts Receivable**

Accounts Receivable—the value of all money due to a company for goods or services delivered or used but not yet paid for by customers—is entered in Current Assets as long as the accounts can be expected to be paid within a year. If a business makes sales by offering longer credit terms to its customers, some of its receivables may not be included in the Current Assets account.

If an account is never collected, it is entered as a bad debt expense and not included in the Current Assets account.

It is also possible that some receivables are not expected to be collected on. This consideration is reflected in the Allowance for Doubtful Accounts, a sub-account whose value is subtracted from the Accounts

Receivable account.

### ***Inventory***

Inventory—which represents raw materials, components, and finished products—is included in the Current Assets account. However, different accounting methods can adjust inventory; at times, it may not be as liquid as other qualified current assets depending on the product and the industry sector.

For example, there is little or no guarantee that a dozen units of high-cost heavy earth-moving equipment may be sold over the next year, but there is a relatively high chance of a successful sale of a thousand umbrellas in the coming rainy season.

For these reasons, you should view inventory with a skeptical eye. Read through the company reports or browse the internet to determine what is going on with a company's inventory—it might also just be standard practice or a trend in the industry for inventory to be at specific levels.

Inventory also blocks working capital. If demand shifts unexpectedly—which is more common in some industries than others—inventory can become backlogged.

### ***Prepaid Liabilities***

Prepaid expenses—which represent advance payments made by a company for goods and services to be received in the future—are considered current assets. Although they cannot be converted into cash, they are payments already made. These payments free up capital for other uses. Prepaid expenses might include payments to insurance companies or contractors.

### ***Other Short-Term Investments***

Many companies categorize liquid investments into the Marketable Securities account, but some can be accounted for in the Other Short-Term Investments account. An example would be excess funds invested in a short-term security, putting the funds to work but keeping the option of accessing them if needed.

## ***Inventory valuation Cost formulas (AS-2) Fixed Assets***

### ***What Is Inventory Valuation?***

Inventory valuation is a process in accounting that businesses use to determine the value of unsold inventory stock when they are producing their financial accounts. For an organization, inventory stock is an asset that must have a monetary value in order to be recorded on the balance sheet. Your inventory turnover ratio can be calculated using this value, which can help you plan your purchasing decisions.

### ***What are the different inventory valuation methods?***

There are three methods for inventory valuation: FIFO (First In, First Out), LIFO (Last In, First Out), and WAC (Weighted Average Cost).

- **In FIFO**, you assume that the first items purchased are the first to leave the warehouse. In other words, whenever you make a sale, under FIFO, the items will be subtracted from the first list of products which entered your store or warehouse.
- **In LIFO**, you make the opposite assumption: that the last items that enter your store are the first ones to leave.
- **The WAC** method uses the item's average cost throughout the year. The average cost per unit is calculated by dividing the total cost by the total number of units purchased during the year.

### **Valuation of Inventories**

Inventories should be valued at lower cost and net realizable value. Following are the steps for valuation of inventories: A. Determine the cost of inventories B. Determine the net realizable value of inventories C. On Comparison between the cost and net realizable value, the lower of the two is considered as the value of inventory.

**A. Cost of Inventories** The cost of inventories includes the following

- Purchase cost
- Conversion cost
- Other costs which are incurred in bringing the inventories to their present location and condition.

**B. Cost of Purchase** While determining the purchase cost, the following should be considered:

- Purchase cost of the inventory includes duties and taxes (except those which are subsequently recoverable from the taxing authorities)
- Freight inwards
- Other expenditure which is directly attributable to the purchase
- Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase

**C. Cost of Conversion**

- Cost of conversion includes all cost incurred during the production process to complete the raw materials into finished goods. Cost of conversion also includes a systematic allocation of fixed and variable overheads incurred by the enterprise during the production process.

### **Cost of Acquisition (AS-10)**

#### **AS 10 Property, Plant and Equipment Applicability of AS 10 Property, Plant and Equipment**

AS 10 is to be applied in accounting for property, P&E (Plant and Equipment) and this standard are not applicable to:

- (a) Biological assets which are related to agricultural activities except for bearer plants. The Standard is applicable to bearer plants, however, it doesn't apply to the produce on bearer plants; and
- (b) Wasting assets which include mineral rights, expenses related to exploration for and extraction of oil, minerals, natural gas and other non-regenerative resources.

#### **Recognition of Asset under AS 10 Property, Plant and Equipment**

The cost of property and P&E should be recognized as an asset only if: (i) it is apparent that the future economic benefits related to such asset would flow to the business; and (ii) the cost of such asset could be reliably measured.

#### **Measurement of cost of the asset**

An enterprise can select the revaluation model or the cost model as the accounting policy and employ the same to the entire class of its properties and P&E. According to the cost model, after recognizing the asset as an item of property or plant and equipment, it should be carried at the cost less the accumulated depreciation and the

accumulated impairment losses (if any).

**Depreciation methods (AS-6)**

**What are the Main Types of Depreciation Methods?**

There are several types of depreciation expense and different formulas for determining the book value of an asset. The most common depreciation methods include:

1. Straight-line
2. Double declining balance
3. Units of production
4. Sum of years digits

**1. Straight-Line Depreciation Method**

Straight-line depreciation is a very common, and the simplest, method of calculating depreciation expense. In straight-line depreciation, the expense amount is the same every year over the useful life of the asset.

**Depreciation Formula for the Straight Line Method:**

**Depreciation Expense = (Cost – Salvage value) / Useful life**

Example

Consider a piece of equipment that costs \$25,000 with an estimated useful life of 8 years and a \$0 salvage value. The depreciation expense per year for this equipment would be as follows:

Year #		1	2	3	4	5	6	7	8
<b>Straight Line</b>									
Opening Book Value		25,000	21,875	18,750	15,625	12,500	9,375	6,250	3,125
Depreciation	8	3,125	3,125	3,125	3,125	3,125	3,125	3,125	3,125
Ending Book Value	25,000	21,875	18,750	15,625	12,500	9,375	6,250	3,125	-

**Depreciation Expense = (\$25,000 – \$0) / 8 = \$3,125 per year**

**Straight Line Depreciation**



**2. Double Declining Balance Depreciation Method**

Compared to other depreciation methods, double-declining-balance depreciation results in a larger amount expensed in the earlier years as opposed to the later years of an asset’s useful life. The method reflects the fact that assets are typically more productive in their early years than in their later years – also, the practical fact that any asset (think of buying a car) loses more of its value in the first few years of its use. With the double-declining-balance method, the depreciation factor is 2x that of the straight-line expense method.

Depreciation formula for the double-declining balance method:

Periodic Depreciation Expense = Beginning book value x Rate of depreciation

Example

Consider a piece of property, plant, and equipment (PP&E) that costs \$25,000, with an estimated useful life of 8 years and a \$2,500 salvage value. To calculate the double-declining balance depreciation, set up a schedule:

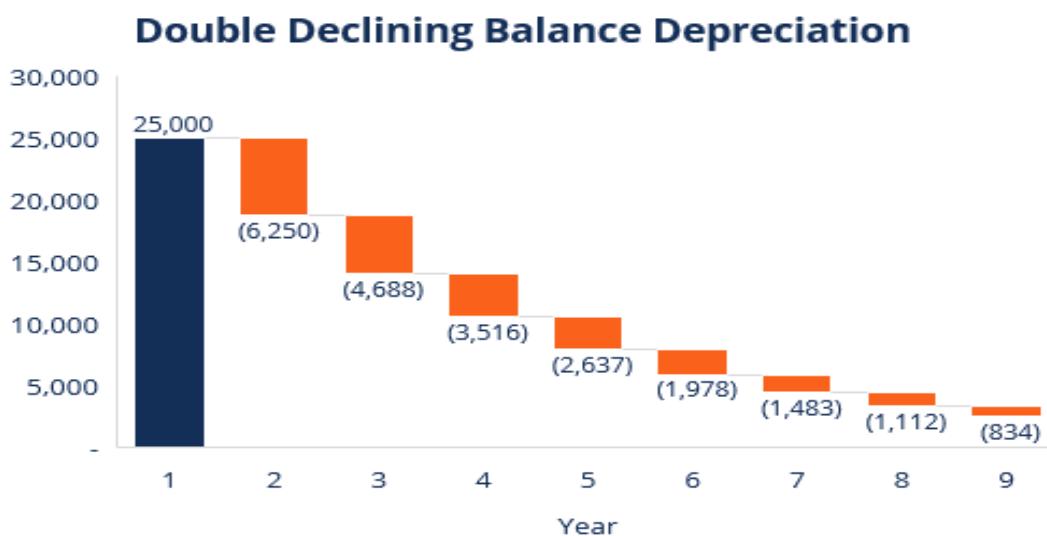
Year #		1	2	3	4	5	6	7	8
<b>DDB</b>									
Opening Book Value		25,000	18,750	14,063	10,547	7,910	5,933	4,449	3,337
Depreciation	25%	6,250	4,688	3,516	2,637	1,978	1,483	1,112	834
Ending Book Value	25,000	18,750	14,063	10,547	7,910	5,933	4,449	3,337	2,503

The information on the schedule is explained below:

1. The beginning book value of the asset is filled in at the beginning of year 1 and the salvage value is filled in at the end of year 8.
2. The rate of depreciation (Rate) is calculated as follows:
 
$$\text{Expense} = (100\% / \text{Useful life of asset}) \times 2$$

$$\text{Expense} = (100\% / 8) \times 2 = 25\%$$

Note: Since this is a double-declining method, we multiply the rate of depreciation by 2.
3. Multiply the rate of depreciation by the beginning book value to determine the expense for that year. For example,  $\$25,000 \times 25\% = \$6,250$  depreciation expense.
4. Subtract the expense from the beginning book value to arrive at the ending book value. For example,  $\$25,000 - \$6,250 = \$18,750$  ending book value at the end of the first year.
5. The ending book value for that year is the beginning book value for the following year. For example, the year 1 ending book value of \$18,750 would be the year 2 beginning book value. Repeat this until the last year of useful life.



### 3. Units of Production Depreciation Method

The units-of-production depreciation method depreciates assets based on the total number of hours used or the

total number of units to be produced by using the asset, over its useful life.

**The formula for the units-of-production method:**

$$\text{Depreciation Expense} = (\text{Number of units produced} / \text{Life in number of units}) \times (\text{Cost} - \text{Salvage value})$$

Example

Consider a machine that costs \$25,000, with an estimated total unit production of 100 million and a \$0 salvage value. During the first quarter of activity, the machine produced 4 million units.

Year #	1	2	3	4	5	6	7
<b>Units</b>							
Production (Units)	4	7	4	23	32	12	6
Opening Book Value	25,000	24,000	22,250	21,250	15,500	7,500	4,500
Depreciation	1,000	1,750	1,000	5,750	8,000	3,000	1,500
Ending Book Value	25,000	24,000	22,250	21,250	15,500	7,500	3,000

To calculate the depreciation expense using the formula above:

$$\text{Depreciation Expense} = (4 \text{ million} / 100 \text{ million}) \times (\$25,000 - \$0) = \$1,000$$

**Units of Production Depreciation**



**4. Sum-of-the-Years-Digits Depreciation Method**

The sum-of-the-years-digits method is one of the accelerated depreciation methods. A higher expense is incurred in the early years and a lower expense in the latter years of the asset’s useful life.

In the sum-of-the-years digits depreciation method, the remaining life of an asset is divided by the sum of the years and then multiplied by the depreciating base to determine the depreciation expense.

*The depreciation formula for the sum-of-the-years-digits method:*

$$\text{Depreciation Expense} = (\text{Remaining life} / \text{Sum of the years digits}) \times (\text{Cost} - \text{Salvage value})$$

## ***Liabilities and its classification.***

### ***What is Liability?***

Liability is a term in accounting that is used to describe any kind of financial obligation that a business has to pay at the end of an accounting period to a person or a business. Liabilities are settled by transferring economic benefits such as money, goods or services.

Liabilities are recorded on the right hand side of the balance sheet, which includes different types of loan, creditors, lender and suppliers.

Liabilities can be of short term and long term. Short term liabilities are due within an accounting period (12 months) and long term liabilities become due within a duration of more than 12 months.

### **Different Types of Liabilities**

Liabilities are primarily categorised based on the priorities they enjoy in terms of being written off the books of a company.

In other words, they are segregated based on how early an organisation is liable to settle them.

The following are the types of liabilities –

#### ***Current Liabilities***

Current liabilities refer to those financial obligations which a company is liable to settle or pay off within 12 months. Hence, they are also called short-term liabilities.

They form an essential part of a company's workaday functions as current liabilities directly affect its working capital and impact its liquidity.

It is used to derive ratios such as quick ratio, current ratio, and cash ratio.

**Working capital = Current assets – Current liabilities**

Examples of Current liabilities: bills payables, trade payables, creditors, bank overdraft, outstanding or accrued expenses, short-term loans or debentures, etc.

#### ***Non-current Liabilities***

Non-current liabilities, as the name suggests, are financial obligations which a company is not liable to pay off or settle in the short run of its business operations, i.e. 12 months. It is also referred to as long-term liabilities.

This group of liabilities is used to derive several crucial metrics which pose as formidable quantifiers of a company's financial health. For instance, long-term debt-to-total-assets ratio aids in understanding to what extent a company is dependent on borrowings to finance its capital operations.

Non-current liability examples: debentures, mortgage loan, deferred tax payable, bonds, derivative liabilities, etc.

#### ***Contingent Liabilities***

Although it was mentioned earlier that liabilities are categorised based on their priority of settlement, this type digresses to that definition.

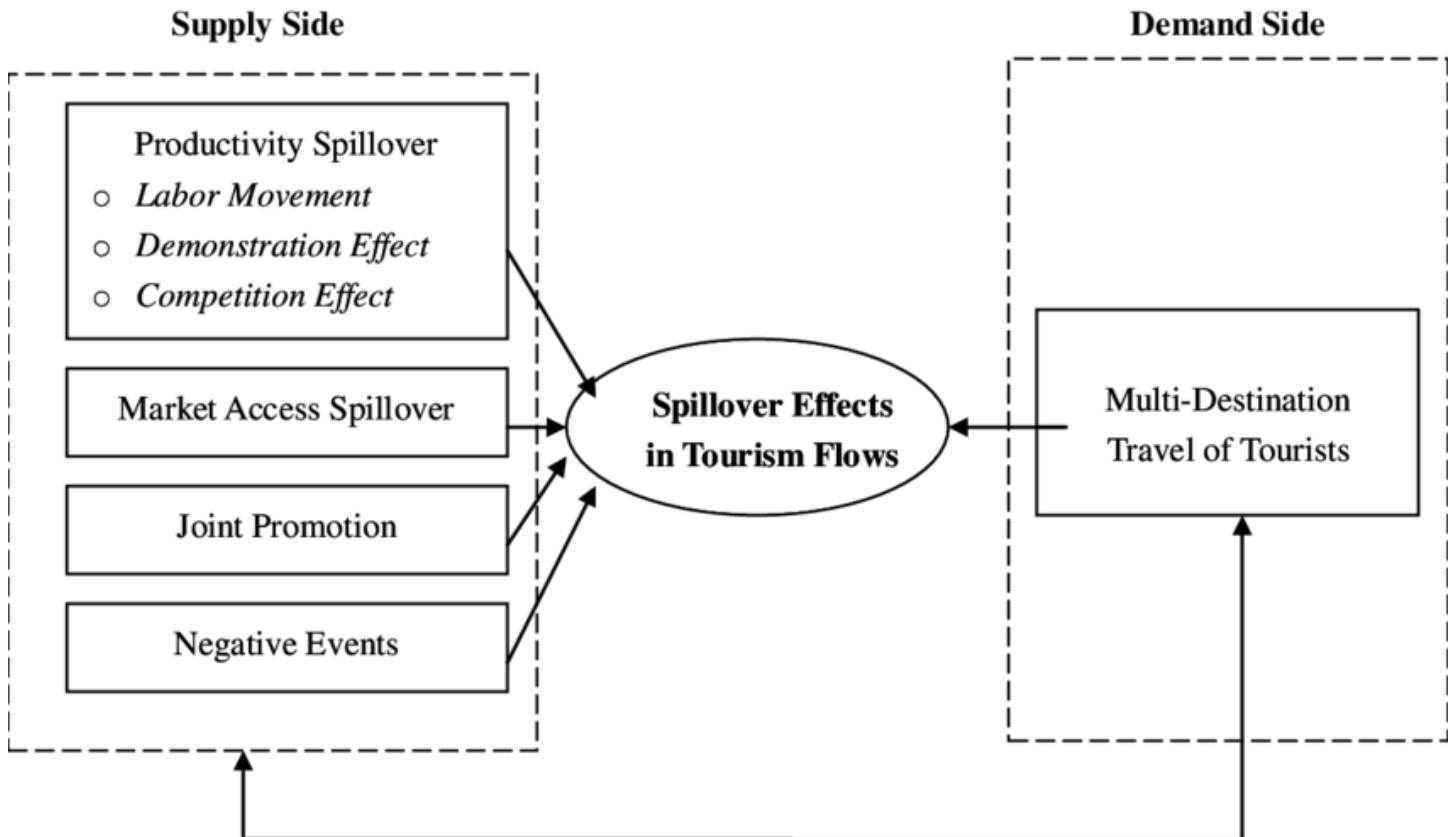
Contingent liabilities are referred to as those obligations that might or might not arise in the future. In the accounting context, contingent liabilities are only recorded in the books if they are at least 50% likely to occur in the future. One primary example of such is a lawsuit. A lawsuit stands a 50% chance of being successful, thus posing as a potential obligation to such an organization.

## 4 MODULES 4: HEALTHCARE ECONOMICS AND PLANNING 10 HOURS

### Basic Economic Aspects in Healthcare-Externalities (Spillover Effects)-

#### What Is the Spillover Effect?

Spillover effect refers to the impact that seemingly unrelated events in one nation can have on the economies of other nations. Although there are positive spillover effects, the term is most commonly applied to the negative impact a domestic event has on other parts of the world such as an earthquake, stock market crisis, or another macro event.



#### What are spillover effects?

International spillover effects occur when one country's actions generate benefits or impose costs on another country that are not reflected in market prices, and therefore are not "internalized" by the actions of consumers and producers.

### Equity and Health

Equity is the absence of unfair, avoidable or remediable differences among groups of people, whether those groups are defined socially, economically, demographically, or geographically or by other dimensions of inequality (e.g. sex, gender, ethnicity, disability, or sexual orientation). Health is a fundamental human right. **Health equity is achieved when everyone can attain their full potential for health and well-being.**

Health and health equity are determined by the conditions in which people are born, grow, live, work, play and age, as well as biological determinants. Structural determinants (political, legal, and economic) with social norms and institutional processes shape the distribution of power and resources determined by the conditions in which people are born, grow, live, work, play and age.

Health equity means that people have opportunities based on their needs. An example could be the same health center charging people based on their ability to pay. A person who cannot afford care may receive it for free while another person may pay for the same care.

***Examples of services that promote health equity include:***

- Providing health seminars and courses that are specific to the needs of certain ethnic communities and racial groups.
- Providing low-cost services to those living in a low income household.
- Using mobile health screenings to help those who may not have access to transportation.
- Offering evening or late-night health appointments to those who work long hours and are unable to access care.
- Providing better education, testing, and treatment access to communities particularly impacted by certain conditions or diseases.

***To promote health equity, government and community organizations must acknowledge and attempt to remove barriers to care.***

***To improve health equity, evidence-informed action is needed:***

- (1) by the health sector to ensure high-quality and effective services are available, accessible and acceptable to everyone, everywhere when they need them;
- (2) by health and or other sectors to act on the wider structural determinants of health to tackle the inequitable distribution of power and resources, and to improve daily living conditions; and
- (3) the health sector needs to take the lead in monitoring health inequities through monitoring health outcomes and health service delivery – as well as working with other sectors to monitor people’s living conditions.

***What Is Economic Efficiency?***

Economic efficiency is when all goods and factors of production in an economy are distributed or allocated to their most valuable uses and waste is eliminated or minimized. A system is considered economically efficient if the factors of production are used at a level at or near their capacity.

***Economic Efficiency Definition***

Economic efficiency in microeconomics refers to the state that manifests optimum resource allocation, the minimum cost for producing goods and services, and maximum outcome. In other words, it also indicates the absence of overproduction or underproduction.

***Techniques of Economic Efficiency***

***Types of economic efficiency***

The different types of economic efficiency are:

1. **Productive efficiency** - this occurs when a firm produces goods and services at the lowest possible cost, given the current technology and resources.
2. **Allocative efficiency**, also referred to as **Pareto efficiency**, occurs when resources are allocated to their most valuable use, such that no one can be made better off without making someone else worse off.

3. **Dynamic efficiency** occurs when a firm is able to improve its productive efficiency over time through innovation and learning.
4. **Static efficiency** occurs when a firm produces goods and services at the lowest possible cost, given the current technology and resources, without any improvement over time.
5. **Social efficiency** occurs when the benefits of economic activity are greater than its costs to society as a whole.
6. **X-efficiency** refers to the ability of a company to use its resources in the best way possible to produce the most output from a given level of inputs. This is more likely to occur when a company operates in a highly competitive market where managers are motivated to produce as much as they can. However, when a market is less competitive, such as in a monopoly or [oligopoly](#), there is a risk of losing X-efficiency, due to a lack of motivation for managers.

### ***Types of Economic Efficiency***

Let's briefly describe significant types of economic efficiencies, such as allocative efficiency, productive efficiency, and dynamic efficiency.

#### ***Allocative Efficiency***

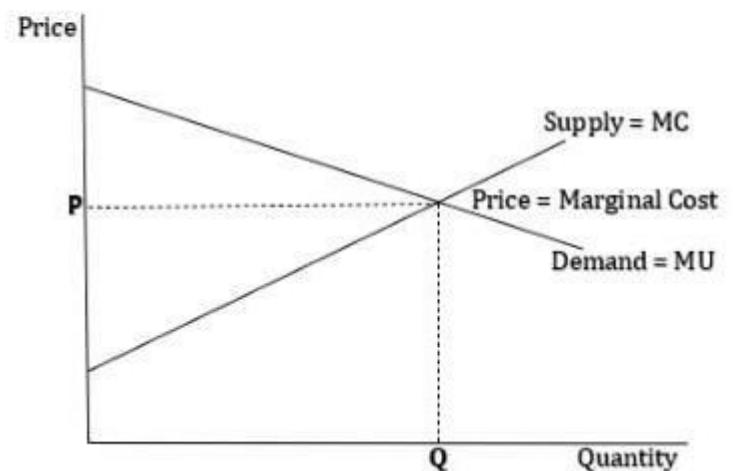
Allocative or allocational efficiency occurs when products and services distribution streamlines with consumers' requirements. Hence effective allocation of resources and consumer satisfaction happens. On the other hand, if the distributed goods and services do not meet consumer preferences, the situation will be termed as allocative inefficiency.

The above graph delineates the allocative efficiency at the equilibrium point demand-supply curve where demand matches the supply or price equals the marginal cost.

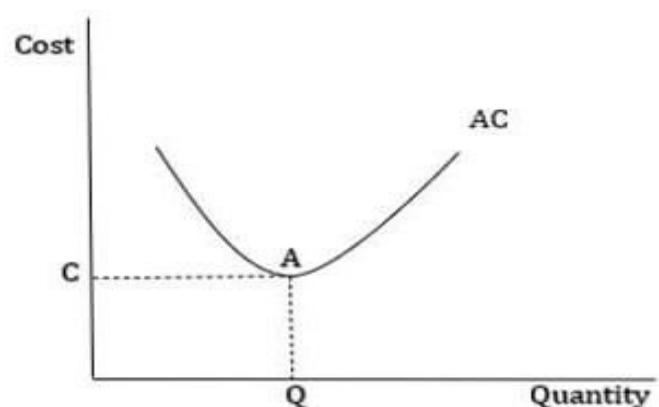
#### ***Productive Efficiency***

Productive or production efficiency results from minimization of production cost and obtaining maximum output at that point. Resources are believed to be allocated in the best possible way creating a cost-efficient product without compromising the quality. However, further production of additional units requires alteration of the production level of another item.

### **Allocative Efficiency**



### **Productive Efficiency**



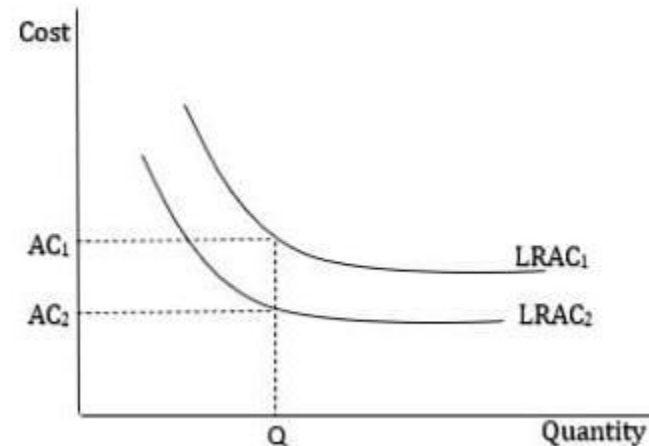
The lowest point (A) on the average cost curve (AC) represents the productive efficiency point where at the minimum cost (C), output (Q) is produced. Imagine an entity whose average production cost is initially at a high level. As production increases, the average cost decreases, and the entity can use economies of scale.

### **Dynamic Efficiency**

An entity exhibits dynamic efficiency if they escalate their production efficiency in the following years of their operation. The entities should adapt to changing business practices to bring down their cost curves.

In the above graph, AC1 and AC2 are the average cost incurred to produce Q units in years one and two. It indicates that compared to year one, the entity reduced the cost of production in year two; that is the long-run average cost curve, LRAC1 in year one is brought down in year two to LRAC2. Hence, they obtained dynamic efficiency.

### Dynamic Efficiency



### **Economic aspects of Public Private Partnership (PPP)**

#### **Impact of Public-Private Partnership on economic growth**

PPPs do have a great impact on overall economic growth. A PPP increases the net investment in a certain industry and leads to a larger project growth in the specified sector. Basically, PPPs allow large scale government projects such as hospitals, bridges etc which are completed with the help of private financing.

#### **Public-Private Partnerships in Healthcare**

Public private partnership (PPP) refers to an arrangement between the government and the private sector, with the principal objective of providing public infrastructure, community facilities and other related services. Such long-term partnerships are characterised by a sharing of investments, risks, rewards and responsibilities for the mutual benefit of both parties involved.

#### **Different types of public-private partnerships include:**

1. The introduction of private-sector ownership to state-owned businesses, using the full range of possible structures and with the sale of either a majority or minority stake;
2. Private finance initiatives and other arrangements, where the public sector contracts to purchase quality services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk, and
3. Selling government services to wider markets and other partnership arrangements where private sector expertise and finance are used to exploit the commercial potential of government assets, for example, through the various types of PPPs.

**Elements that needs to be addressed in ensuring sustainable economic growth. There are five key principles:**

### **Drawing on Past Experience**

Privatisation has served to define the relationship between the public and private sectors, where it has created thousands of employment opportunities and generated multiplier effects to spur the overall economy. Nonetheless, it is still viewed with suspicion and scepticism. The government needs to identify the reasons for these shortcomings and address the key deficiencies in these programmes.

### **Becoming a better partner**

The lessons learnt need to be applied for the government to become a better partner, so as to secure better public services and value for money for the taxpayer. This can be achieved by the government taking a more long-term view as shareholder, by growing the value of the businesses and drawing on practices in the private sector and in other countries.

### **Safeguarding public interest**

The success of PPPs lies in whether the added value generated benefits users of public services, and the wider community. The government must protect public interest by enforcing a structured tender process to assess the benefits of the private sector's proposed services vis-à-vis the total costs to be borne; delivering better value for money and better management of capital spent; putting effective regulation in place to ensure all public services are accountable to customers and communities that rely on them; and maintaining continuous government involvement in those elements of PPP where a strong public interest remains.

### **Recognising the contribution of staff**

As dedicated and committed staffs are central to the long-term success of partnerships, it is vital that their contribution is recognised and entitlements protected.

### **Developing innovative partnerships**

PPPs are about changing the way in which the government does business and interacts with the private sector, to introduce the private sectors' expansive skills, experience and finance into the wide range of public sector activities for new and innovative solutions.

### ***Public–Private Partnerships in Healthcare (Evidence from India)***

Current evidence points to the mixed performance of public–private partnerships in India and globally. A detailed study of the formulation and performance of specific PPPs in the healthcare sector in Bihar, Chhattisgarh and Delhi reveals that PPPs faced challenges similar to the government health system. Though they filled a gap in some cases, their long-term implications and sustainability need more serious assessment.

## 5 MODULE 5 HEALTHCARE MARKET 12 HOURS

### **Meaning and definition, Role and Functions of financial markets, constituents of Financial Markets, Money Market and instruments, Capital Markets and Instruments.**

#### **Financial Markets**

**Financial Markets** – It refers to any marketplace where buyers and sellers participate in trading of assets such as shares, bonds, currencies and other financial instruments. A financial market may be further divided into capital market and money market. While the capital market deals in long term securities having maturity period of more than one year, the money market deals with short-term debt instruments having maturity period of less than one year.

Financial market deals in financial securities (or financial instruments) and financial services. Financial markets are the centers or arrangements that provide facilities for buying and selling of financial claims and services. These are the markets in which money as well as monetary claims is traded in. Financial markets exist wherever financial transactions take place. Financial transactions include issue of equity stock by a company, purchase of bonds in the secondary market, deposit of money in a bank account, transfer of funds from a current account to a savings account etc.

#### **FUNCTIONS OF FINANCIAL MARKETS**

- To facilitate creation and allocation of credit and liquidity.
- To serve as intermediaries for mobilization of savings
- To help in the process of balanced economic growth
- To provide financial convenience
- To cater to the various credits needs of the business organizations.
- To provide information and facilitate transactions at low cost

#### **Classification of Financial Markets**

**Organized Market** – The organized financial markets are governed by the rules and regulations of the government and is supervised and controlled by the central bank(RBI in India) or other regulatory body.

**There are two types of organized financial markets –**

- Money Market
- Capital Market

**Unorganized market** – An unorganized market is not controlled and supervised by the central bank. It generally consists of money lenders, traders, indigenous bankers who lend money to the public.

- **Money Lenders:** Money Lenders lend money to individuals at a high rate of interest.
- **Indigenous Bankers:** They operate like money lenders. They also accept deposits from public.
- **Chit Funds:** These collect funds from members and provide loans to members and others.

#### **Types of Financial Markets**

##### **Money Market**

A money market is a financial market where financial instruments with high liquidity and a short maturity period are traded. The money market is used by its participants to carry out lending or borrowing activities through short term financial instruments which have a maturity period of less than a year.

**A money market consists of the following institutions –**

- Commercial bank
- Central Bank
- Acceptance houses
- Non-banking Financial Companies
- Bill Brokers

**Functions of Money Market –**

- Mobilization and liquidation of funds
- Profitable Investment
- Borrowing by the government
- Economic Development

**Instruments of Money Market –**

- Commercial Paper
- Commercial Bill
- Certificate of Deposit
- Treasury Bills
- Call Money

**Commercial Paper** – It is a short term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. A commercial paper is issued by large credit worthy financial institutions to raise short-term funds at market prevailing interest rates. It usually has a maturity period of 15days to 1 year.

**Commercial Bill** – It is a bill of exchange used to finance the working capital requirements of a business. It is a short term, negotiable and self-liquidating instrument which is used to finance the credit sales of firms where the seller is the drawer and the buyer is the drawee.

**Certificate of deposit** – These are marketable receipts in bearer form for funds deposited in a bank for a specified period of time and at a specified rate of interest. It is a form of fixed deposit which is transferable in nature i.e. it can be sold to someone and can be traded in the secondary market. A certificate of Deposit can be issued for a minimum amount of Rs. 5 Lakhs up to Rs. 1 crore in India.

**Treasury bill** – It is a short term government security, usually for a time period of 91days, sold by the central bank, RBI in India, on behalf of the government. A treasury bill does not carry a fixed rate of interest and is secured because of the guarantee of repayment provided by the Reserve bank of India (RBI).

**Call Money** – It refers to funds provided for a short period of time, usually less than a week. Generally banks are the borrowers and lenders of call money. Commercial banks and other financial institutions give their surplus funds to small banks, it may be taken for a day or even few hours.

**Capital Market**

Capital market is one of the most significant aspect of the finance industry. It consists of financial institutions like IDBI, ICICI, LIC etc.

A Capital market may be broadly defined as a financial market for trading of long-term financial assets. Capital markets are concerned with raising of capital for a business through buying and selling of shares, bonds and other long-term debt and equity instruments.

It simply refers to an institutional arrangement between the business and financial institutions to deal in long term debt and equity backed securities.

### **Nature of Capital Market cont-----**

- It deals in long term securities
- It creates dispersion in business ownership
- It helps in capital formation
- It helps in creating liquidity

### **Functions of Capital Market**

- Capital Formation
- Mobilization of Savings
- Provision and Regulation of funds
- Aid in economic growth and development

### **Features of Money Market**

Few general money market features are:

- It is fund-term market funds.
- It's maturity period up to one year.
- It trades with assets that can be transformed into cash easily.
- All the transactions take place through phone, email, text, etc.
- Broker not required for the transaction
- The components of a money market are the Commercial Banks, Non-banking financial companies, and Central Bank etc.

### **Features of Capital Market**

Important features of the capital market are:

- Unites entrepreneurial borrowers and savers
- Deals long-term investments.
- Agents are required.
- It is controlled by government rules and regulations.
- Deals in both commercial and non-commercial securities.
- Foreign Investors.

### **Capital Market & Money Market**

Money Market	Capital Market
<b>Definition</b>	
A random course of financial institutions, bill brokers, money dealers, banks, etc., wherein dealing on short-term financial tools are being settled is referred to as Money Market.	A kind of financial market where the company or government securities are generated and patronised for the intention of establishing long-term finance to coincide with the capital necessary is called as Capital Market.

Market Nature	
Money markets are informal in nature.	Capital markets are formal in nature.
Instruments involved	
Commercial Papers, Treasury Certificate of Deposit, Bills, Trade Credit, etc.	Bonds, Debentures, Shares, Asset Secularization, Retained Earnings, Euro Issues, etc.
Investor Types	
Commercial banks, non-financial institutions, central bank, chit funds etc.	Stockbrokers, insurance companies, Commercial banks, underwriters etc.
Market Liquidity	
Money markets are highly liquid.	Capital markets are comparatively less liquid.
Risk Involved	
Money markets have low risk.	Capital markets are riskier in comparison to money markets.
Maturity of Instruments	
Instruments mature within a year.	Instruments take longer time to attain maturity
Purpose served	
To achieve short term credit requirements of the trade.	To achieve long term credit requirements of the trade.
Functions served	
Increasing liquidity of funds in the economy	Stabilising economy by Increase in savings
Return on investment achieved	
ROI is usually low in money market	ROI is comparatively high in capital market

### Types of Capital Market

**Primary Market:** The primary capital market is concerned with issue of new securities and listing of new shares on the stock exchange. In a primary market private and public companies obtain funds through issue of new debt or equity securities.

Primary markets are facilitated by many financial institutions and investment banks which are responsible for underwriting, setting initial share prices and selling securities directly to prospective investors.

**Secondary Market:** In a secondary market those securities are traded which have already been initially offered to the public in the primary market or listed in the stock exchange. A secondary market can also be categorized into equity market and debt market on the basis of the nature of security being traded.

### **Functions and Significance of Primary Market**

#### Functions of Primary Market

1. **Origination-** primary market facilitates all activities for origination of shares.
2. It provides Guarantee for issue through **underwriting**
3. It facilitates **distribution** of shares to geographically dispersed investors
4. Aids in expansion/diversification/modernization of existing units
5. To provides working avenues for major players of primary market like merchant bankers, underwriting, brokers, advt agencies etc

Methods of issue in primary market

Public through prospectus: Under this method, issuing company directly offers to the general public/institutions a fixed number of shares at a stated price through a document called prospectus. This is the most common method followed by joint stock companies to raise capital through the issue of securities it is also called as IPO – Initial public offering/ FPO follow public offering

1. **Rights issue:** under this method shares are offered to existing share holders.
2. **Bonus shares:** share given to shareholders out of accumulated profit as a substitute for dividend
3. **Private Placements:** It is a way of selling securities privately to a small group of investors. shares are offered to few group of customers under reservation method

### **Functions and Significance of Secondary Market**

Secondary market:

It is a market for secondary sale of securities, such shares quoted in the stock exchange market. It provides continuous and regular market for buying and selling. It is also called as stock market.

#### **Features**

1. **Market for securities:** where securities of corporate bodies, government and semi-government bodies are bought and sold.
2. **Deals in second hand securities:** It deals with shares, debentures bonds and such securities already issued by the companies.
3. **Regulates trade in securities.** It regulates the trade activities so as to ensure free and fair trade
4. **Specific location :** dealings happens in Stock exchange on the floor of market Continuous and ready market for securities
5. It provides ready outlet for buying and selling of securities.

#### **Functions of Secondary market**

1. Liquidity of securities as securities can be converted into cash readily
2. Marketability of securities as it facilitates buying and selling of securities.
3. Safety of funds belonging to investors
4. Provides long term funds
5. Flow of funds to profitable projects.
6. Motivation for improved performance by companies to get competitive edge.
7. Promotion of investment opportunities.
8. Reflection of business cycle.
9. Promotes marketing of new issues by companies.

### **6 MODULE 6: PRACTICAL ASSIGNMENT 8 HOURS**

**Assignment on demand and supply analysis of new hospitals.**

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<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3037177/>

<https://www.slideshare.net/arokiamanojkumar/demand-forecast-of-hospitals-in-india>

[https://saylordotorg.github.io/text\\_microeconomics-theory-through-applications/s19-01-supply-and-demand-in-health-ca.html](https://saylordotorg.github.io/text_microeconomics-theory-through-applications/s19-01-supply-and-demand-in-health-ca.html)

<https://www.bartleby.com/essay/LP1-Assignment-Health-Care-Supply-And-Demand-PK8ZTTY9SAR>

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