Assignment #2

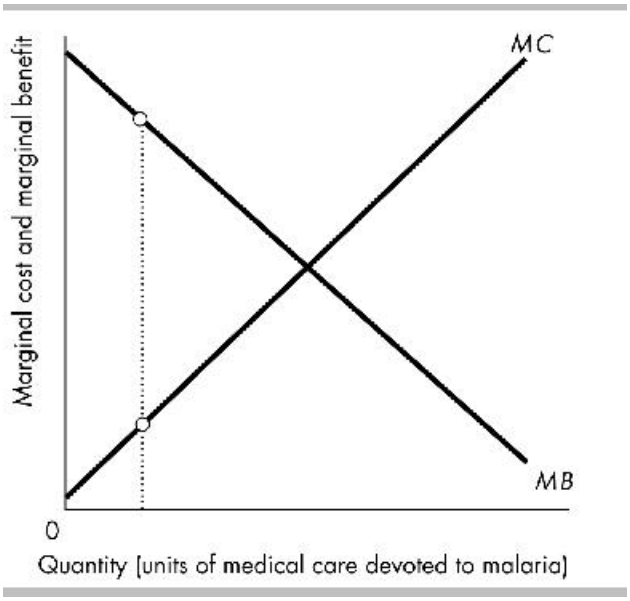
EFFICIENCY AND EQUITY

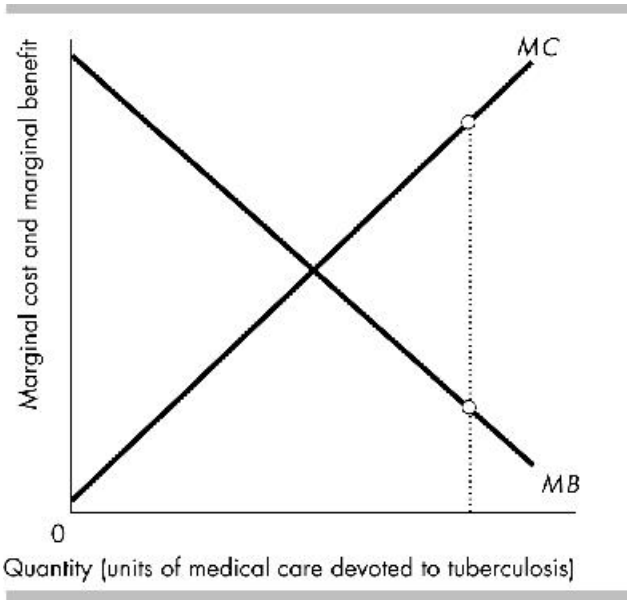
In October, 2003, the International Development Research Center (IDRC) posted an article on its website that provides an application of the concept of allocative efficiency. ("Making Plans for Success — The Tanzania Essential Health Interventions Project", http://www.idrc.ca/en/ev-45726-201-1-DO_TOPIC.html, accessed 12/27/2006) The article described how child mortality had been reduced by more than 40 percent over five years in Tanzania, not by increasing total health expenditures, but by *reallocating* the existing meager health budget more strategically. "By ensuring that meager resources were spent on the diseases that caused the greatest ravages, that the right medicines were available at the right time, and that health personnel were trained to treat patients effectively, the project has proven that an integrated approach to managing a health system is key to improving community health." The rule you learned in Chapter 5, "produce at the point where the marginal benefit equals the marginal cost," is applicable in this situation with some modification. Define marginal cost as "the opportunity cost of medical services devoted to battling a particular disease" and marginal benefit as "years of life saved from an additional unit of medical service spent on fighting the disease".

An article in *The Economist* provided an application of the concept of allocative efficiency. The article focused on the allocation of resources available for the annual health budget of Tanzania—about $10 per person per year. Researchers in Morogoro, Tanzania found that the pre-1998 health budget reflected serious resource misallocation. "Malaria, for example, accounted for 30 percent of the years of life lost in Morogoro, but only 5 percent of the 1996 health budget. A cluster of childhood problems, including pneumonia, diarrhea, malnutrition, measles and malaria, constituted 28 percent of the disease burden, but received only 13 percent of the budget. On the other hand, "Tuberculosis, which accounted for less than 4 percent of years of life lost, received 22 percent of the budget." ("For 80 Cents More." *The Economist* August 15, 2002)

Question #1:

Use the diagrams below to indicate the current situation in Tanzania for medical care devoted to malaria and tuberculosis.





Question #2:

Could Tanzania be made better off with no increase in its health care budget? Refer to your answer to Question #1.