

# Prices for the Medical Services

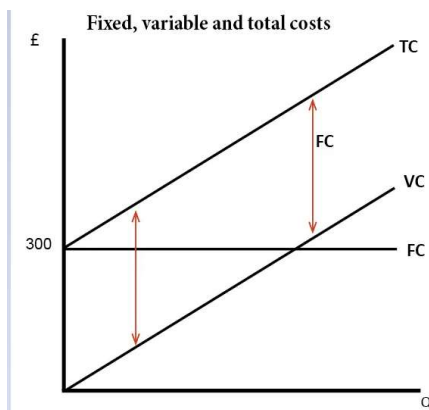
Healthcare policy, Management and  
Economics, Public Health, Lecture 4

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## Types of Costs

- ▶ **Fixed Costs (FC)** – The costs which don't vary with changing output. Fixed costs might include the cost of building a factory, insurance and legal bills
- ▶ **Variable Costs (VC)** – Costs which depend on the output produced. **Semi-Variable Cost** – Labour might be a semi-variable cost
- ▶ **Total Costs (TC) = Fixed + Variable Costs**

## Fixed, Variable and Total cost



$$\text{Total cost (TC)} = \text{Variable cost (VC)} + \text{fixed costs (FC)}$$

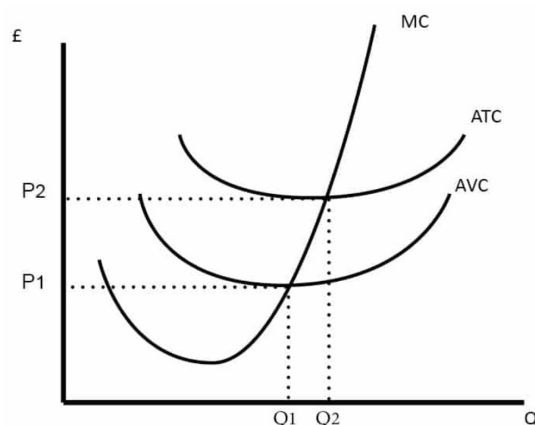
## Types of Costs

- ▶ **Marginal Costs** – Marginal cost is the cost of producing an extra unit. If the total cost of 3 units is 1550, and the total cost of 4 units is 1900. The marginal cost of the 4th unit is 350
- ▶ **Opportunity Cost** – Opportunity cost is the next best alternative foregone. If you invest £1 million in developing a cure for pancreatic cancer, the opportunity cost is that you can't use that money to invest in developing a cure for skin cancer

## Types of Costs

- ▶ **Economic Cost.** Economic cost includes both the actual direct costs (accounting costs) plus the opportunity cost. For example, if you take time off work to a training scheme. You may lose a weeks pay of £350, plus also have to pay the direct cost of £200. Thus the total economic cost = £550
- ▶ **Accounting Costs** – this is the monetary outlay for producing a certain good. Accounting costs will include your variable and fixed costs you have to pay

## Average Costs



ATC (Average Total Cost) = Total Cost / quantity

AVC (Average Variable Cost) = Variable cost / quantity

MC = Marginal cost.

AFC (Average Fixed Cost) = Fixed cost / quantity

## Examples of Fixed Costs

- ▶ Amortization. This is the gradual charging to expense of the cost of an intangible asset (such as a purchased patent) over the useful life of the asset
- ▶ Depreciation. ...
- ▶ Insurance. ...
- ▶ Interest expense. ...
- ▶ Property taxes. ...
- ▶ Rent. ...
- ▶ Salaries. ...
- ▶ Utilities

Thank you

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