Costs are calculated to estimate the resources (or inputs) that are used in the pro- duction of a good or service.Based on economic theory, the "true" cost of a resource is its opportunity cost--the value of the best-forgone option or the "next best option"--not necessarily the amount of money that changes hand. Resources committed to one product or service cannot be used for other product or services (opportunities). For example, if volunteers are used to help staff a new clinic, even though no money changes hands (i.e., volunteers are not paid), there is an oppor- tunity cost associated with their help because they could be providing other serv- ices if they were not helping at the new clinic. Another example is if the new clinic required a part-time pharmacist, and a currently employed pharmacist was asked to fill in at the clinic as part of his or her duties (instead of hiring a new part-time pharmacist for the clinic). The hourly rate of the pharmacist (plus fringe benefits) multiplied by the number of hours spent at the clinic would be used to estimate a portion of the costs of the new clinic even though no one new was added to the payroll. This is because if the pharmacist was not filling in at the clinic, he or she would have been providing other products or services--for example, filling pre- scriptions or providing clinical services to inpatients--"the next best option."The "price" or the amount that is charged to a payer is not necessarily synony- mous with the cost of the product or service. For example, if a hospital system wanted to calculate how much it cost to treat a patient with a specific diagnosis, there may be a substantial difference in what the total cost is to the hospital com- pared with the amount the hospital charges the payer and compared with what is actually collected from the payer after allowable amounts are factored in. Think of these differences as similar to the new car market. There is a cost to the car manu- facture to produce a car, a "sticker price," which is the suggested price of the car (higher than the cost to produce the car) and the amount paid by the average car buyer (usually lower than the sticker price, which is good news for the buyer but is hopefully higher than the cost to produce the car, which is good news for the manufacturer).These, in turn, are similar to the actual cost of a hospital to provide a service, the charge billed to the payer (third-party insurance payer, patient payer, or a combination), and the allowable charge or reimbursed amount paid by the payer(s).Again, the reimbursed amount is hopefully higher than the cost of the hospital to provide the service (good news for the hospital) and lower than the stan- dard charge listed by the hospital (good news for the payer[s]).Resources used for one good or service are no longer available to be used for another.

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