

Healthcare Services Delivery: A Managerial Economic Approach

HCMG 852

Spring 2009

Tue/Thurs 10:30 a.m. – 12:00 p.m.

Auditorium, Colonial Penn Center

Professor Guy David

Office hours: Tuesdays 3:00 - 4:00 or by appointment

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Objectives The purpose of this course is to apply economics to an analysis of the health care industry, with special emphasis on the unique characteristics of the US healthcare markets, from pre-hospital to post-hospital care. This course focuses on salient economic features of health care delivery, including: the role of nonprofit providers, the effects of regulation and antitrust activity on hospitals, the degree of input substitutability within hospitals, competition in home health, public versus private provision of emergency medical services, specialty hospitals, the economics of direct-to-consumer advertising and its effect on drug safety, defining and improving medical performance in hospitals, specialization and investment in physical and human capital, and cost-shifting between inpatient and outpatient services and its effect on health care costs and quality.

Grading

- Class Participation 10%
- Midterm Exam 50%
- Problem Sets 15%
- Student Presentations 25%

Problem Sets

There will be a number of short problem sets. Problem sets will be assigned after the completion of a specific topic and will be due in class on the following week. No late problem sets will be accepted. I encourage you to cooperate with your classmates on the problem sets, yet you should submit your own work.

WebCafe

We have established a WebCafe room for HCMG852. This will serve as our primary communication channel. All class materials will be posted there.

The URL for the WebCafe is: <http://webcafe.wharton.upenn.edu/eRoom/hcmg/852-sp08-1>. You can log on using your usual Wharton username and password. Registered students will automatically have access. If you are not a Wharton student, you can get a Wharton account online at: <http://accounts.wharton.upenn.edu>. In case of any problems, you can apply in person at F35 JMHH, which is the Wharton computer consulting office. If you have questions about using WebCafe, contact the Wharton WebCafe Team at: webcafe@wharton.upenn.edu.

Readings: All readings will appear in an electronic format on WebCafe. Note that the readings listed below are required, except those marked (**) which indicates optional.

Topics and Reading Assignments (** denotes optional readings)

HOSPITAL OWNERSHIP AND PRODUCTIVITY

January 15: Introduction to the U.S. healthcare industry and its unique characteristics

- ** Arrow, Kenneth “Uncertainty and the Welfare Economics of Medical Care” *American Economic Review* 1963; 53(5):941-973
- ** White D. William “The American Hospital Industry Since 1900: A Short History” *Advances in Health Economics and health Services Research*, Vol. 3, pages 143-170. JAI Press 1982.

January 20: On the Objectives and Behavior of Nonprofit Hospitals in the U.S.

Frank, Richard and David Salkever. “Non profit Organizations in the Health Sector”, *Journal of Economic Perspectives*, Vol 8, 1994, pp129-144.

Schlesinger, Mark, Shannon Mitchell, and Bradford H. Gray, “Public Expectations Of Nonprofit And For-Profit Ownership In American Medicine: Clarifications And Implications” *Health Affairs*, 23(6): 181-191, 2004.

- ** Malani, Anup, Tomas Philipson and Guy David, “Theories of Firm Behavior in the Non-Profit Sector: A Synthesis and Empirical Evaluation.” in The Governance of Not-for-Profit Firms, Edward Glaeser, Editor. University of Chicago press, 2003.

January 22 Why do for-profit and nonprofit providers coexist in the same market?

Nicholson, Sean, Mark Pauly, Lawton Burns, Agnieszka Baumritter, and David Asch. “Measuring Community Benefits Provided By For-profit And Nonprofit Hospitals.” *Health Affairs* Vol 19 (6) 2000.

Community Catalyst, Inc. report “Not There When You Need It: The Search for Free Hospital Care”, Boston, MA October 2003. [available via www.communitycatalyst.org]

Nowicki, Michael. Chapter 3: “Tax Status of Healthcare Organizations” in The Financial Management of Hospitals and Healthcare Organizations, 4th Edition exact cite

David, Guy and Lorens A. Helmchen, “An Uncertain Prescription: Are Tax Exemptions for Nonprofit Hospitals an Efficient Way to Fund Indigent Care?” *Regulation*, Vol. 29 (2), pp 14-16, June 2006.

January 27: Do nonprofit hospitals justify their tax exempt status? - Ralph W. Muller, Chief Executive Officer, University of Pennsylvania Health System.

ANTITRUST AND COMPETITION IN HEALTH CARE MARKETS

January 29: Introduction to Antitrust and Regulation in Health Care

Hammer, Peter J. and William M. Sage, “Critical Issues in Hospital Antitrust Law “ *Health Affairs*, vol 22: 88-100, Nov/Dec 2003.

Lehrman, Susan and Karen K Shore., “Hospitals' vertical integration into skilled nursing: A rational approach to controlling transaction costs” *Inquiry*, Vol. 35(3): 303-315, Fall 1998.

Van Etten, Peter, “Camelot Or Common Sense? The Logic behind the UCSF/Stanford Merger Source” *Health Affairs*, vol 18: 143-148, March/April 1999.

February 3: Antitrust and Regulation in Health Care (cont.)

Choudhry S, N.K. Choudhry, and T.A. Brennan, "Specialty versus Community Hospitals: What Role for the Law?" *Health Affairs*, 9 August 2005.

Havighurst, Clark C., "Monopoly Is Not the Answer" *Health Affairs*, August 2005.

Lynk, William. J., "Property Rights and the Presumptions of Merger Analysis." *Antitrust Bulletin*, 39: 363-383; 1994

** Philipson Tomas. J., and Richard. A. Posner "Antitrust and the Not-For-Profit Sector", NBER Working Paper No. 8126 , February 2001

February 5: Antitrust laws, regulation and competition - Rob Field, PhD, MPH, JD, Director, Health Policy Program and Associate Professor of Health Policy, University of the Sciences in Philadelphia

Abelson, R. "Merged Hospitals Gain Both Power and Critics." The New York Times, Sept. 26, 2002.

Arizona v. Maricopa County Medical Society, Supreme Court of the United States, 1982 (457 U.S. 332, 102 St.Ct. 2466, 73 L.Ed.2d 48).

Furrow, B. et al. Introduction to chapter 15, "Antitrust", in Health Law. St. Paul, MN: West Group, 2004, pp.1046-1050.

Haas-Wilson, D. "Antitrust Policy in Health Care Markets", chapter 3 in Managed Care and Monopoly Power: The Antitrust Challenge. Cambridge, MA: Harvard University Press, 2003, pp.65-89.

February 10: Cost-shifting behavior of hospitals and physicians

Clement, J. "Dynamic cost shifting in hospitals: Evidence from the 1980's and 1990's" *Inquiry* 35 (1997/1998) 340-350.

Morrissey, Michael A., "Cost-Shifting: New Myths, Old Confusion, and Enduring Reality" *Health Affairs*, October 2003.

Showalter, M. "Physicians' cost shifting behavior: Medicare versus other patients" *Contemporary Economic Policy*, 15 (1997) 74-84.

** Dranove David, "Pricing by Non-Profit Institutions: The Case of Hospital Cost-Shifting" *Journal of Health Economics* 7(1), 1988: 47-57.

MEDICAL SPECIALIZATION AND COORDINATION OF CARE

February 12: Specialty Hospitals, Ambulatory Surgery Centers, and Minute Clinics

Medicare Payment Advisory Commission (2005). *Report to the Congress: Physician-Owned Specialty Hospitals*. Washington, D.C.: March 2005.

Greenwald L., Cromwell J., Adamache W., Bernard S., Drozd E., Root E., and Devers K (2006). "Specialty versus community hospitals: referrals, quality, and community benefits," *Health Affairs*, 25(1):106-18, 2006 Jan-Feb.

February 17: Competition with ambulatory surgery centers and minute clinics – Jacquelyn Paul, MBA, Senior Vice President Strategic Business Development, Geisinger Health System

February 19: The impact of the economic slowdown on hospitals and health systems – Steven Levin, MBA, Managing Director of The Chartis Group

February 24: What may account for the gap in salaries across different medical specialties?

Fred G. Donini-Lenhoff and Hannah L. Hedrick, “Growth of Specialization in Graduate Medical Education”, *JAMA*. 2000; 284: 1284-1289.

Greineder and Barondess. “Generalist vs. Specialist Medical Care”, *JAMA*, 2000; 284: 2873-2874.

Goodman, David C., “Perspective: Do We Need More Physicians?” *Health Affairs*, February 2004.

** Nicholson, Sean. “Barriers to Entering Medical Specialties”. The Wharton School. University of Pennsylvania and NBER. September 2003.

THE ECONOMICS OF HEALTHCARE PROMOTION

February 26: Is advertising informative or persuasive? an economic framework

Berndt, Ernst R., “To Inform or Persuade? Direct-to-Consumer Advertising of Prescription Drugs”, *New England Journal of Medicine*, 352:4, January 2005, pp. 325-328.

Dubois, Robert W., “Pharmaceutical Promotion: Don't Throw The Baby Out With The Bathwater” *Health Affairs*, February 2003.

** Bradford, David W. et al., “The Impact of Direct to Consumer Advertising for Prescription Drugs on Physician Prescribing Behavior for the Treatment for Osteoarthritis” *working paper*, October 2004

** Dorfman, Robert, and Peter O. Steiner, “Optimal Advertising and Optimal Quality “ *The American Economic Review* Vol. 44, No. 5 (Dec., 1954), pp. 826-836

March 3: Understanding direct-to-consumer advertising in healthcare

Jeffords, James M., “Perspective: Direct-To-Consumer Drug Advertising: You Get What You Pay For” *Health Affairs*, April 2004

Weissman, Joel S., et al. “Consumers' Reports On The Health Effects Of Direct-To-Consumer Drug Advertising” *Health Affairs*, February 2003.

Weissman, Joel S., et al. “Physicians Report On Patient Encounters Involving Direct-To-Consumer Advertising” *Health Affairs*, April 2004

March 5: Service lines – Michael J. Dandorff, MBA , Senior Vice President for Business Development, University of Pennsylvania Health System.

Hagland, Mark. “Focused Factories; Giving Consumers What They Want”, *Healthcare Forum Journal*, September/October 1997, pp. 23-26.

Keyte, Beau & Gershon, Howard: “Developing a successful product line strategy”, *Health Care Strategic Management*, Sept. 1998, pp. 1, 20-23.

Nevers, Rick. “A Financial Argument for Service-line Management”, *Healthcare Financial Management*; Dec 2002, pp 38- 42.

--- SPRING BREAK ---

MEDICAL SPECIALIZATION AND COORDINATION OF CARE (CONT.)

March 17: Public versus private Emergency Medical Services

Chiang, Arthur, Guy David and Michael Housman, "The Determinants of Urban Emergency Medical Services Privatization" *Critical Planning*, Vol. 13, pp 5-22, June 2006.

- ** Hart, Oliver, Andrei Shleifer and Robert W. Vishny, "The Proper Scope of Government: Theory and an Application to Prisons" *The Quarterly Journal of Economics*, Nov 1997.
- ** David, Guy and Arthur Chiang "The Determinants of Public versus Private Provision of Emergency Medical Services" Forthcoming In *International Journal of Industrial Organization* (2009)

March 19: Division of labor and specialization: the case of hospitalists in the US

Meltzer, David, "Hospitalists and the Doctor-Patient Relationship" *Journal of Legal Studies* v30, n2 (Part 2): Page 589-606, June 2001.

Pham, Hoangmai, Kelly Devers, Sylvia Kuo and Robert Berenson, "Health Care Market Trends and the Evolution of Hospitalist Use and Roles" *Journal of General Internal Medicine* Volume 20, Issue 2, Page 101-107, Feb 2005.

Wachter, Robert, "Hospitalists in the United States – Mission Accomplished or Work in Progress?", *The New England Journal of Medicine*, May 2004.

- ** Becker, Gary and Kevin M. Murphy, "The Division of Labor, Coordination Costs, and Knowledge," *Quarterly Journal of Economics*, 1992, Vol. 107, No. 4. pp. 1137-1160
- ** David, Guy, Lorens Helmchen and Robert Henderson, "Does Advanced Medical Technology Encourage Hospitalist Use and Their Direct Employment by Hospitals?" *Health Economics*, Vol. 18(2), pp 237-247, February 2009.
- ** Guy David and Lorens Helmchen, "The Choice of Employment Arrangement in the Market for Hospitalist Services." *Southern Economic Journal*, Vol. 73 (3), pp 604-622, January 2007.
- ** Rosen, Sherwin, "Specialization and Human Capital" *Journal of Labor Economics*, 1983; 1(1): 43-49.

March 24: Regulation, Competition and Vertical Integration in Home Health

- ** Charles, Kerwin and Purvi Sevak "Can family caregiving substitute for nursing home care?" *Journal of Health Economics* 24 (2005) pp 1174–1190.

March 26: Hospitalists – coordinators or specialists - Laurence Wellikson, MD, CEO of the Society of Hospital Medicine

Mark V. Williams, "The Future of Hospital Medicine: Evolution or Revolution?" September 2004, *The American Journal of Medicine*, Vol. 117.

Wachter RM, Goldman L. "The Emerging Role of "hospitalists" in the American Healthcare System" *New England Journal of Medicine*, 1996;335:514-7.

March 31: An Overview of the "In-Home Medical Equipment and Services" Industry - Richard Chesney, Founder of Healthcare Market Resources.

April 2: Midterm Exam

DEFINING AND IMPROVING HEALTH CARE ORGANIZATION PERFORMANCE

April 7: Demand Management - David A. Horowitz, M.D., Assistant Professor of Medicine, University of Pennsylvania Health System.

Bodenheimer, Thomas and Alicia Fernandez, “High and Rising Health Care Costs. Part 4: Can Costs Be Controlled While Preserving Quality?” July 2005, *Annals of Internal Medicine*, Vol. 143 (1).

Goetzel, Ron Z., Ronald J. Ozminkowski, Victor G. Villagra, and Jennifer Duffy, “Return on Investment in Disease Management: A Review” Summer 2005, *Health Care Financing Review*, Vol. 26 (4).

April 9: Challenges in providing patient safety: the Leapfrog quality initiative – Patrick .J Brennan, M.D., Chief Medical Officer & Senior Vice President, Univ. of Pennsylvania Health System.

April 14: Defining and improving health care organization performance - Craig Samitt, MD, MBA, President and Chief Executive Officer at Dean Health System.

Samitt, Craig “Group Practice Transformation: Moving to a Multi-payer Strategy and becoming the Gold Standard” *Group Practice Journal*, Feb 2004.

Samitt, Craig “At Your Service: Transforming Health Care Delivery” *The Physician Executive*, Nov-Dec 2004.

April 16: Students presentations

April 21: Students presentations

April 23: Students presentations

April 28: Students presentations