

**THE WHARTON SCHOOL**  
**University of Pennsylvania**

**The Economics and Financing of Health Care Delivery**  
**HCMG 202-401/ECON 39**  
**Fall 2010**

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**Teaching Assistant**

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Lectures: Tues. & Thurs. 10:30-12, 3-4:30  
XXX

Office Hours: Tues. 1:30-2:30

Office Hours: [TBD]

**Description**

The purpose of this course is to consider the economic facts and economic analysis of the medical care sector. In the United States this is a huge and growing industry, accounting for more than \$2 trillion in spending, or roughly 16% of GDP, and a sizeable portion of US employment and research and development.

This course deals, primarily, with research in economics on health care. We will study the production of health itself and the role of health in consumption of medical resources viewed through the lens of economics models. However, the main focus of the course will follow the main focus of health economics as a field: how medical *care* is produced and financed, in both private and public sectors. Emphasis will be on the US, with a brief treatment of health economics research in other countries and comparisons of health systems in other developed and less developed countries.

The material for the course will consist both of the description and discussion of problems in medical services financing and delivery and analysis of how medical markets work. Fundamentally we will use economics to evaluate why the health care market is different from conventional markets and what, if anything, economic analysis can tell us about these differences. This will include studying such matters as why health insurance exists, whether hospital competition leads to efficient allocation of resources and production, the role of the physician in patient choice and the role for government and market interventions in correcting potential inefficiencies.

This is an economics course. The approach taken and the literature reviewed will be primarily by and for economists. This means that charts, graphs, and algebra will be common. While these tools will be used to analyze interesting political and policy questions, you should not take this course if you already think economics is confusing, maddening, or irrelevant.

The course will also shed light on some more general questions in economics, especially in economic theory, industrial organization and public finance. Many of the important issues in general economics- decisions and markets with uncertainty, principal-agent theory, moral hazard, the behavior of non-profit firms, and the role of fringe benefits in the labor market -have concrete, real world examples in the medical care and health insurance industries. Observation

of actual behavior in this industry can furnish real world tests and policy-relevant challenges for some of the more important recent developments in economic theory.

### **Readings**

The text is Folland, Goodman, and Stano, *The Economics of Health and Health Care* (6<sup>th</sup> ed.). This is a clear, not-too-complicated exposition. The course website (on WebCafé) will contain additional readings – some on health policy, and some chapters from some recent books which help to update the text. We will also read a substantial portion of David Cutler's book *Pricing the Priceless* (Oxford University Press, 2004). All readings are required, and special emphasis will be placed on the articles assigned.

Notes/slides will also be posted on the WebCafé page for this class, usually within a day of the class session. Non-Wharton students will need a Wharton ID to access the web page.

**Wharton IDs can be obtained by going to Wharton Computer Consulting in Room F35, Jon M. Huntsman Hall, or apply online at <http://apps.wharton.upenn.edu/accounts/class/index.cfm>.**

Comments and questions in class are strongly encouraged. Things that seem confusing or controversial are usually that way for many students; everyone will benefit if you ask questions. And because the class will deal with policy, there is a lot of room for honest and good spirited disagreement. No one knows the complete answer, or even the right answer, to many of these questions.

### **Exams**

Both exams will both be essay / short answer tests. The purpose of the exams is to evaluate your understanding of the economic theory, empirical evidence and policy application of the topics covered in the course. The first exam will cover material to that point. The second exam will focus primarily on the second half of the course but may draw on concepts from earlier lectures and readings.

### **Short Papers**

Three short paper opportunities will be offered throughout the semester and you should complete two of them. Short papers should not exceed two pages (minimum 1.5 line spacing, font 11). Each paper will be a response to an editorial, short policy paper or letter. Each of the memos will relate to one of the primary topics covered in the course. These will be assigned after covering the topic. Specific question will be associated with each paper, but generally you should critically evaluate the topic using the tools of economics. The key to a successful short paper is to apply economics to reach a more subtle conclusion than you would otherwise and to articulate that clearly and succinctly.

### **Participation**

I reserve the right to circulate an attendance list during some classes if numbers dwindle (yes this creates a free rider problem). Grades will take into account whether you actively participate in the course.

**Grading**

|                     |      |                                    |
|---------------------|------|------------------------------------|
| CLASS PARTICIPATION | 10 % | Attendance and involvement         |
| SHORT PAPERS        | 20 % | Two (of three) during the semester |
| EXAM 1              | 35 % | October 27 <sup>th</sup>           |
| EXAM 2              | 35 % | December 8 <sup>th</sup>           |

**Course Outline**

**I. Introduction**

**Objectives:**

- 1. Highlight the broad set of economic tools necessary to analyze health care markets.**
- 2. Argue that health care markets deserve special attention.**

9/8: Lecture 1      Course Overview

- FGS, Chapters 1; Skim Chapters 2, 3, 18 (383-391)

**II. Cost, Quality and Access**

**Objectives:**

- 1. Review the costs and benefits of additional health care spending.**
- 2. Develop tools for analyzing the efficiency of health care spending.**

9/13: Lecture 2      Health Care Spending: Why so much? Is it too much?

- Catlin et al., “Trends: National Health Spending In 2007: Slower Drug Spending Contributes to Lowest Rate of Overall Growth Since 1998,” *Health Affairs* 28, no.1 (Jan./Feb. 2009):246-261.
- D. Cutler, Your Money or Your Life, Chapter 2: “Pricing the Priceless.”
- Cutler, D. and M. McClellan. “Is Technological Change Worth It?” *Health Affairs* Sept/Oct. 2001.

9/15: Lecture 3      The Health Production Function: What Does Medical Care Do? Is it worth it?

- FGS, Chapters 5 and 6.
- Cutler, Your Money or Your Life, Chapters 3-5: “Pricing the Priceless.”

**III. Demand: Theory Models and Empirical Results**

**Objectives:**

- 1. View health as a consumption and investment good.**
- 2. Analyze demand for health services as derived from demand for health.**

9/20: Lecture 4      The Demand for Health and Medical Care: Theory and Empirics

- FSG Chapter 7

9/22: Lecture 5      The Demand for Medical Care: Effects of Price (and other factors) on Quantity

- FGS, Chapter 9

#### IV. Financing: Health Insurance

##### Objectives:

1. Apply critical concepts of moral hazard and selection to insurance markets.
2. Understand the sources of public and private health insurance.

|                   |   |
|-------------------|---|
| 9/27: Lecture 6   | <u>Moral Hazard</u> <ul style="list-style-type: none"> <li>• FGS, Chapters 8</li> <li>• M. Gladwell, “The Moral Hazard Myth.” <i>The New Yorker</i>, August 29, 2005.</li> </ul>  |
| 9/29: Lecture 7   | <u>Adverse Selection</u> <ul style="list-style-type: none"> <li>• FGS, Chapter 10</li> <li>• M. Pauly. “The Truth about Moral Hazard and Adverse Selection.” Policy Brief No. 36. Center for Policy Research, Maxwell School of Syracuse University, 2007</li> </ul>  |
| 10/4: Lecture 8   | <u>Insurance Markets</u> <ul style="list-style-type: none"> <li>• L. Einav and A. Finkelstein. “Selection in Insurance Markets: Theory and Empirics in Pictures” <i>Journal of Economic Perspectives</i> 25(1): 115-138.</li> </ul>   |
| 10/6: Lecture 9   | <u>Private Health Insurance: Employer-Sponsored Coverage</u> <ul style="list-style-type: none"> <li>• FGS, Chapter 11</li> <li>• Pauly, M. “The Economics of Employer-Paid Benefits,” Chapter 3 in <u>Health Benefits at Work</u> (1997), pp. 37-50.</li> </ul>   |
| 10/11             | Fall Break No Class   |
| 10/13: Lecture 10 | <u>Government Programs: Medicare, Medicaid</u> <ul style="list-style-type: none"> <li>• FGS, Chapter 21</li> <li>• Cutler and Gruber, “Medicaid and Private Insurance: Evidence and Implications.” <i>Health Affairs</i> 16(1): 194-200. (Jan/Feb 1997)</li> </ul>  |
| 10/18: Lecture 11 | <u>The Uninsured and the Individual Market</u> <ul style="list-style-type: none"> <li>• Gruber, J. “Covering the Uninsured in the United States.” <i>Journal of Economic Literature</i>. 46(3): 571-606.</li> <li>• Frank, Richard G., and Richard J. Zeckhauser, —Health Insurance Exchanges: Making the Markets Work, <i>New England Journal of Medicine</i>, 2009, 361, 1135-1137</li> </ul>   |
| 10/20: Lecture 12 | <u>The Uninsured and the Individual Market (Cont’d)</u><br><u>Managed and Consumer Directed Care</u> <ul style="list-style-type: none"> <li>• FGS, Chapter 12.</li> <li>• Miller and Luft. “HMO Plan Performance Update” <i>Health Affairs</i>, 21(4), July/Aug 2002, p.63-86.</li> <li>• Newhouse, J. “Consumer Directed Health Plans and the RAND Health Insurance Experiment” <i>Health Affairs</i> 23(6) Nov/Dec 2004, p.107-13.</li> </ul> |
| 10/25             | Review Session  |

10/27                    **EXAM 1**

**V.     Health Care Supply**

**Objectives :**

- 1. Analyze the incentives of health care suppliers.**
- 2. Apply this analysis to understand equilibrium in health markets.**

- 11/1: Lecture 14     Non-Profit Status of Hospitals
- FGS, Chapter 13
  - J. Horwitz “Making Profits And Providing Care: Comparing Nonprofit, For-Profit, And Government Hospitals” *Health Affairs*, 24, no. 3 (2005): 790-801
- 11/3: Lecture 15     Hospital Competition
- FGS, Chapters 14 and 20
- 11/8: Lecture 16     Pharmaceuticals
- FGS, Chapter 17
  - Scherer, F. “The Pharmaceutical Industry: Prices and Progress”, *NEJM*, 351(9), August 26, 2004, p.927-32.
  - Berndt, E. “Pharmaceuticals in US Healthcare: Determinants of Quantity and Price,” *Journal of Economic Perspectives*, 16(4), Fall 2002, 45-66.
- 11/10: Lecture 17    The Health Care Workforce
- FGS, Chapter 16
- 11/15: Lecture 18    Physician Agency
- FGS, Chapters 15

**VI.    Selected Topics in Health Economics**

- 11/17: Lecture 19    TBA, according to student demand
- Readings TBA later in the semester
- 11/24: Lecture 20    TBA, according to student demand
- Readings TBA later in the semester
- 11/26:                    Thanksgiving Break
- 11/29: Lecture 21    National Health Care Reform
- Readings TBA later in the semester
- 12/6:                    Review and Wrap Up
- 12/8:                    **EXAM 2**