

THE WHARTON SCHOOL
University of Pennsylvania

The Economics and Financing of Health Care Delivery
HCMG 202/ECON 039
Spring 2012

Jonathan Kolstad
306 Colonial Penn Center
e-mail: jkolstad@wharton.upenn.edu

Teaching Assistant

Henry Bergquist
G7 Colonial Penn Center
e-mail: hberg@wharton.upenn.edu

Lectures: Mon. & Weds. 3-4:30
Colonial Penn Center Auditorium
Office Hours: Wed. 1:30-2:30

Office Hours: Mon. 11:00am-noon

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 \$2.5 trillion in spending, or roughly 18% 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* (6th 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.

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 %	February 29 th
EXAM 2	35 %	March 23 rd

- 1/11: No class
 1/16: Martin Luther King Jr Day – No class

Introduction

- 1/18: Lecture 1 Course Overview
- FGS, Chapters 1; Skim Chapters 2, 3, 18 (383-391)
 - Lowenstein, Roger. “The Quality Cure” *The New York Times Magazine* March 13, 2005.

Cost, Quality and Access

- 1/23: Lecture 2 Health Care Spending: Why so much? Is it too much?
- Martin, Anne, David Lassman, Lekha Whittle, Aaron Caitlin and the National Health Expenditure Accounts Team “Recession Contributes To Slowest Annual Rate Of Increase In Health Spending In Five Decades” *Health Affairs* 30, no.1 (Jan./Feb. 2011):11-22.
 - 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.

Health Production and Demand: Theory Models and Empirical Results

- 1/25: 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.”
- 1/30: Lecture 4 The Demand for Health and Medical Care: Theory and Empirics
- FSG Chapter 7
- 2/1: Lecture 5 The Demand for Medical Care: Effects of Price (and other factors) on Quantity
- FGS, Chapter 9

Health Insurance

- 2/6: Lecture 6 Demand for Health Insurance and Moral Hazard
 (First Short Paper Topic Released)
- FGS, Chapters 8
 - M. Gladwell, “The Moral Hazard Myth.” *The New Yorker*, August 29, 2005.
 - M. Pauly. “The Truth about Moral Hazard and Adverse Selection.” Policy Brief No. 36. Center for Policy Research, Maxwell School of Syracuse University, 2007
- 2/8: Lecture 7 Adverse Selection and Insurance Markets
- FGS, Chapter 10
 - Hackman, M., J. Kolstad and A. Kowalski, “Health Reform, Health Insurance, and Selection: Estimating Selection into Health Insurance Using the Massachusetts Health Reform” *American Economic Review* (Papers and Proceedings), 2012.
- 2/13: Lecture 8 Private Health Insurance: Employer-Sponsored Coverage
(First Short Paper Due)
- FGS, Chapter 11
 - Pauly, M. “The Economics of Employer-Paid Benefits,” Chapter 3 in Health Benefits at Work (1997), pp. 37-50.
- 2/15: Lecture 9 Government Programs: Medicare, Medicaid and SCHIP

- FGS, Chapter 21
- Cutler and Gruber, “Medicaid and Private Insurance: Evidence and Implications.” *Health Affairs* 16(1): 194-200. (Jan/Feb 1997)

2/20: Lecture 10	<p><u>Private Health Insurance: Non-Group Coverage</u></p> <ul style="list-style-type: none"> • G. Claxton. “How Private Insurance Works: A Primer.” Kaiser Family Foundation, April 2002. • L. Nichols and M. Pauly, “The Non-Group Health Insurance Market: Short on Facts, Long on Policy Disputes and Opinions,” <i>Health Affairs</i> Web Exclusive, October 23, 2002. • D. Chollet, “Expanding Individual Health Insurance Coverage: Are High Risk Pools the Answer?” <i>Health Affairs</i> Web Exclusive, October 23, 2002.
2/22: Lecture 11	<p><u>Managed Care</u></p> <ul style="list-style-type: none"> • FGS, Chapter 12. • Miller and Luft. “HMO Plan Performance Update” <i>Health Affairs</i>, 21(4), July/Aug 2002, p.63-86. • Newhouse, J. “Consumer Directed Health Plans and the RAND Health Insurance Experiment” <i>Health Affairs</i> 23(6) Nov/Dec 2004, p.107-13.
2/27:	<u>Review Session</u>
2/29:	<u>Exam 1</u>
3/3 & 3/5:	Spring Break – No class

Economics of Health Policy

3/12: Lecture 12	<p><u>The Uninsured</u></p> <ul style="list-style-type: none"> • Gruber, J. “Covering the Uninsured in the United States.” <i>Journal of Economic Literature</i>. 46(3): 571-606.
3/14: Lecture 13	<p>National Health Care Reform (the PPACA) (Second Short Paper Topic Released)</p> <ul style="list-style-type: none"> • Gruber, J. <u>Health Care Reform: What It Is, Why It's Necessary, How It Works.</u> 2012
3/19: Lecture 14	<p><u>Health Insurance Exchanges (Guest Lecture by Amanda Starc)</u></p> <ul style="list-style-type: none"> • Readings TBA

Economics of Health Care Supply

3/21: Lecture 15	<p><u>Non-Profit Status of Hospitals</u> (Second Short Paper Topic Due)</p> <ul style="list-style-type: none"> • FGS, Chapter 13 • J. Horwitz “Making Profits And Providing Care: Comparing Nonprofit, For-Profit, And Government Hospitals” <i>Health Affairs</i>, 24, no. 3 (2005): 790-801
3/26: Lecture 16	<p><u>Hospital Competition</u></p> <ul style="list-style-type: none"> • FGS, Chapters 14 and 20
3/28: Lecture 17	<p><u>Pharmaceuticals</u> (Guest Lecture by Sean McElligot)</p> <ul style="list-style-type: none"> • FGS, Chapter 1 • Scherer, F. “The Pharmaceutical Industry: Prices and Progress”, <i>NEJM</i>, 351(9), August 26, 2004, p.927-32. • Berndt, E. “Pharmaceuticals in US Healthcare: Determinants of Quantity and Price,” <i>Journal of Economic Perspectives</i>, 16(4), Fall 2002, 45-66.
4/2: Lecture 18	<p><u>Pharmaceuticals contd.</u> (Guest Lecture by Sean McElligot)</p> <ul style="list-style-type: none"> • Same as above

Selected Topics in Health Economics

- 4/4: Lecture 19 Physician Agency
- FGS, Chapters 15
- 4/9: Lecture 20 Information and Quality in Health Care
(Third Short Paper Topic)
- J. Hibbard, J. Stockard and M. Tussler. “Hospital Performance Reports: Impact On Quality, Market Share, And Reputation.” *Health Affairs*, 24, no. 4 (2005): 1150-1160
 - J. Kolstad and M. Chernew. “Consumer Decision Making in the Market for Health Insurance and Health Care Services.” *Medical Care Research and Review*, 2008.
 - D. Cutler, R. Huckman and M. Landrum. “The Role of Information in Medical Markets: An Analysis of Publicly Reported Outcomes in Cardiac Surgery.” *American Economic Review*, 94(2).
- 4/11: Lecture 21 Cost Effectiveness and Comparative Effectiveness Analysis
- Readings TBA later in the semester
- 4/16: Lecture 22 Behavioral Economics and Health
(Third Short Paper Due)
- Readings TBA later in the semester
- 4/18: Review and Wrap Up
- 4/23: **EXAM 2**