

# Healthcare Services Delivery: A Managerial Economic Approach

HCMG 852

Spring 2012

Mon/Wed 10:30 a.m. – 12:00 p.m.

Auditorium, Lauder-Fischer Hall

Professor Guy David

Office hours: Wednesdays 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 care, public versus private provision of emergency medical services, the effect of specialty hospitals and ambulatory surgery centers, 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 shifting of services between inpatient and outpatient settings and its effect on health care costs and quality.

## **Grading**

- Class Participation 15%
- Midterm Exam 60%
- Student Presentation 25%

## **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-sp12-1>. 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](mailto: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)

**OWNERSHIP, CONDUCT, AND PERFORMANCE IN HEALTH CARE DELIVERY**

**January 11: 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 18: Cost-shifting and cross-subsidization 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.
- \*\* David, Guy, Richard Lindrooth, Lorens Helmchen and Lawton Burns, “Do Hospitals Cross Subsidize?” *NBER Working Paper* #17300.

**January 23: 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.
- Dynan, Linda, Rebecca Stein, Guy David, Laura Kenny, Amy Short and Mark Eckman, “Hospitalist Efficiency Decomposed: A Qualitative and Quantitative Study.” *Medical Care Research and Review*, Vol. 66(6), pp 682-702, Dec 2009.
- 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.
- \*\* David, Guy and Lorens Helmchen, “The Role of Task Adhesion in Limiting Specialization along the Medical Care Continuum.” *Review of Labour Economics and Industrial Relation*, 2011, Vol. 25(1), pp 24-44.
- \*\* Rosen, Sherwin, “Specialization and Human Capital” *Journal of Labor Economics*, 1983; 1(1): 43-49.

**January 25: Hospital of the Future: Hospitalists Leading the Change - 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.

### **January 30: Specialty Hospitals, Ambulatory Surgery Centers, and Retail Clinics**

Burns R. Lawton., Guy David, and Lorens Helmchen, “Strategic Response by Providers to Specialty Hospitals, Ambulatory Surgery Centers, and Retail Clinics.” *Population Health Management*, April 2011, Vol. 14(2) pp.69-77.

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.

- \*\* David, Guy and Mark Neuman, “Physician Division of Labor and Patient Selection for Outpatient Procedures.” *Journal of Health Economics*, March 2011, Vol. 30(2), pp 381-391.

### **February 1: A Disruptive Healthcare Innovation: The Retail-based Convenient Care Clinics – Caroline Ridgway, Policy Director, Convenient Care Association.**

Please visit [www.ccaclinics.org](http://www.ccaclinics.org) .

### **February 6: 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.
- \*\* David, Guy “The Convergence between Nonprofit and For-Profit Hospitals in the United States.” *International Journal of Health Care Finance and Economics*, Vol. 9(4), pp 403-428, December 2009.

### **February 8 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](http://www.communitycatalyst.org)]

Nowicki, Michael. Chapter 3: “Tax Status of Healthcare Organizations” in *The Financial Management of Hospitals and Healthcare Organizations*, 4<sup>th</sup> Edition

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.

### **February 13: Do nonprofit hospitals justify their tax exempt status? - Ralph W. Muller, Chief Executive Officer, University of Pennsylvania Health System.**

## **REGULATION AND INTEGRATION IN HEALTH CARE DELIVERY**

### **February 15: Regulation, Competition and Vertical Integration in Home Health**

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.

- \*\* Charles, Kerwin and Purvi Sevak “Can family caregiving substitute for nursing home care?” *Journal of Health Economics* 24 (2005) pp 1174–1190.
- \*\* David, Guy, Dan Polsky and Evan Rawley “Integration and Task Allocation: Evidence from Patient Care.” *NBER Working Paper* # 17419.

### **February 20: The Challenges of Managing a Home Health Agency – David Baiada, MBA, Division Director of Bayada Nurses.**

### **February 22: An Overview of the “In-Home Medical Equipment and Services” Industry - Richard Chesney, Founder and CEO of Healthcare Market Resources.**

O’Roark, Brian and Stephen Foreman , “The Impact of Competitive Bidding on the Market for DME”, 2008

Katzman, Brett and Kerry Anne McGeary. “Will Competitive Bidding Decrease Medicare Prices?”, *Southern Economic Journal* 2008, 74(3), 839-856.

### **February 27: 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.

### **February 29: A Hospital System Model of Disease Management - David A. Horowitz, M.D., Senior Medical Director for Quality and Chief Medical Officer of Penn Care at Home, 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).

**--- SPRING BREAK ---**

## **ANTITRUST AND COMPETITION IN HEALTH CARE MARKETS**

### **March 12: 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.

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

### **March 14: Antitrust and regulation in health care (cont.)**

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", *Journal of Law and Economics*, 52(1): 1-18, 2009.

\*\* Capps, Cory, Dennis Carlton and Guy David, "Antitrust Treatment of Nonprofits: Should Hospitals Receive Special Care?" working paper 2010.

### **March 19: Antitrust laws, regulation and competition - Rob Field, PhD, MPH, JD, Professor of Law and of Health Management and Policy at Drexel University.**

Field, R. Health Care Regulation in America: Complexity, Confrontation and Compromise. New York: Oxford University Press, 2007, pp.179-182.

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.

## **THE ECONOMICS OF HEALTHCARE PROMOTION**

### **March 21: 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 26: 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

- \*\* David, Guy, Sara Markowitz and Seth Richards, “The Effects of Pharmaceutical Marketing and Promotion on Adverse Drug Events and Regulation.” *American Economic Journal – Economic Policy*, Vol. 2(4), pp 1-25, November 2010.

**March 28: 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.

<b>April 2: <u>Midterm Exam</u></b>
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**April 4: Clinical Integration – Steven Levin, MBA, Managing Director of The Chartis Group**

**April 9: Public versus private Emergency Medical Services**

- \*\* 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” *International Journal of Industrial Organization* Vol. 27(2), pp 312-319, March 2009.

**April 11: Translation of Evidence into Practice in the 21st Century – Patrick .J Brennan, M.D., Chief Medical Officer & Senior Vice President, University of Pennsylvania Health System.**

**April 16 – April 23: Students presentations**