

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

**The Economics and Financing of Health Care Delivery**  
**HCMG 202/ECON 039**  
**Spring 2016**

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Lectures: Mon. & Wed. 10:30AM-12PM  
Colonial Penn Center Auditorium  
Office Hours: By appt.

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**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 Bhattacharya, Hyde, and Tu, *Health Economics*. This is a clear, not-too-complicated exposition. We will also read a substantial portion of David Cutler's book *Your Money or Your Life* (Oxford University Press, 2004). The course website (on Canvas) will contain additional readings.

Notes/slides will also be posted on the Canvas 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 %	March 2
EXAM 2	35 %	May 2

### Introduction

- 01/13: Lecture 1      Course Overview
- BHT, Chapter 1
  - Lowenstein, R., “The Quality Cure,” *The New York Times Magazine*, March 13, 2005.

1/18                      **NO CLASS (MLK Jr. Day)**

### **Cost, Quality and Access**

- 1/20: Lecture 2      Health Care Spending: Why So Much? Is it Too Much?
- Martin, A. et.al., “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?
- Cutler, D., *Your Money or Your Life*, Chapters 3-5: “Pricing the Priceless.”
  - BHT, Chapter 3
- 1/27: Lecture 4      The Demand for Health and Medical Care: Theory and Empirics
- BHT, Chapter 2

### **Health Insurance**

- 2/1: Lecture 5      Demand for Health Insurance and Moral Hazard
- BHT, Chapters 7 and 11
- 2/3: Lecture 6      Adverse Selection and Insurance Markets
- BHT, Chapter 8 and 10
  - Einav, L. and A. Finkelstein, “Selection in Insurance Markets: Theory and Empirics in Pictures” *Journal of Economic Perspectives*, 2011, 25(1): 115-138.

2/8: Lecture 7	Optimal Insurance Design: Risk Protection and Moral Hazard <ul style="list-style-type: none"> <li>• Gladwell, M., “The Moral Hazard Myth.” <i>The New Yorker</i>, August 29, 2005.</li> <li>• Pauly, M., “The Truth about Moral Hazard and Adverse Selection.” <i>Policy Brief No. 36. Center for Policy Research, Maxwell School of Syracuse University</i>, 2007</li> </ul>
2/10	<b>NO CLASS</b>
2/15: Lecture 8	Private Health Insurance: Employer-Sponsored Insurance <ul style="list-style-type: none"> <li>• BHT, Chapter 18 (covers topics in Lectures 8-11)</li> <li>• Bhattacharya, J. and N. Sood, “Who Pays for Obesity?” <i>Journal of Economic Perspectives</i>, Winter 2011 25(1): 139 – 157.</li> </ul>
2/17: Lecture 9	Medicare
2/22: Lecture 10	Medicaid and SCHIP & the Uninsured <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> </ul>
2/24: Lecture 11	Managed Care <ul style="list-style-type: none"> <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>
2/29:	Review
3/2	<b>EXAM 1</b>
3/7	<b>NO CLASS (Spring Break)</b>
3/9	<b>NO CLASS (Spring Break)</b>
<b>Health Care Supply</b>	
3/14: Lecture 12	Hospitals <ul style="list-style-type: none"> <li>• BHT, Chapter 6</li> </ul>
3/16: Lecture 13	Hospitals <ul style="list-style-type: none"> <li>• Gaynor, M. and R. Town, “The Impact of Hospital Consolidation – Update,” June 2012, <i>Robert Wood Johnson Foundation</i>.</li> </ul>
3/21: Lecture 14	Pharmaceuticals <ul style="list-style-type: none"> <li>• BHT, Chapter 12</li> </ul>

- Berndt, E. "Pharmaceuticals in US Healthcare: Determinants of Quantity and Price," *Journal of Economic Perspectives*, 16(4), Fall 2002, 45 -55.
- Scherer, F., "The Pharmaceutical Industry: Prices and Progress", *New England Journal of Medicine*, 351(9), August 26, 2004, p.927-32.

- 3/28: Lecture 15      Physician Agency
- BHT, Chapter 5
  - Gawande, A. "The Cost Conundrum," *The New Yorker*, June 1, 2009 issue: <http://www.newyorker.com/magazine/2009/06/01/the-cost-conundrum>
  - Fisher et al. "Trends and Regional Variation in Hip, Knee, and Shoulder Replacement." A Dartmouth Atlas Surgery Report. April 6, 2010. [http://www.dartmouthatlas.org/downloads/reports/Joint\\_Replacement\\_0410.pdf](http://www.dartmouthatlas.org/downloads/reports/Joint_Replacement_0410.pdf)
- 4/4: Lecture 16      Health Care Workforce, Physician Agency (cont'd)
- 4/6: Lecture 17      Information & Quality in Health Care
- Cutler, D. "Where are the Health Care Entrepreneurs?" In *Innovation Policy and the Economy*, Volume 11, Lerner and Stern. 2010, available at <http://www.nber.org/papers/w16030.pdf>

### Health Care Reform

- 4/11: Lecture 18      The Massachusetts Experience
- Ericson, K. and A. Starc, 2013, "Designing and Regulating Health Insurance Exchanges: Lessons from Massachusetts" *Inquiry*, 49(4): 327 – 338.
- 4/13: Lecture 19      The Affordable Care Act
- Readings TBA
- 4/18: Lecture 20      The Affordable Care Act
- Readings TBA

### Selected Topics in Health Economics

- 4/20: Lecture 21      Topic(s) TBA
- 4/25 Lecture 22      Behavioral Economics and Health Care Delivery
- BHT, Chapters 23 and 24
- 4/27:                      Review and Wrap-Up
- 5/2:                        **EXAM 2**