

THE WHARTON SCHOOL
The University of Pennsylvania

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

Course Syllabus

Course Instructor: Guy David
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Lectures: Tue/Thurs 10:30 – 11:50
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Course Overview

HCMG 202 (ECON 039), **The Economics and Financing of Health Care Delivery**, provides an application of economic principles to the health care sector. By recognizing the importance of scarcity and incentives, this course will focus on the critical economic issues in producing, delivering and financing health care. In particular, the course will analyze determinants of demand for medical care and health insurance; competition in medical care markets, especially among primary care offices, hospitals and post-acute care entities; and the unique role of physicians in guiding and shaping the allocation of resources in medical care markets. Special emphasis will be placed on the evaluation of policy instruments such as government regulation, antitrust laws, services privatization, and public health systems. The course will use more advanced quantitative methods and formal economic theory; knowledge of calculus and basic microeconomics are recommended.

Problem Sets

There will be three problem sets. Problem sets, each 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 students to discuss the problem sets with classmates, yet each student should complete and submit their own individual assignment.

Exam

A closed book exam will be given on Tuesday, November 22nd during regular class hours (from 10:30 to noon). There will be no additional exam during exam period.

Grading

The exam, student presentation and problem sets will count towards the final grade as follow:

Problem Sets:	30%
Group Presentation:	20%
Exam:	50%

Readings

There are no required readings for this course. There are two (optional) textbooks: Phelps E. Charles, **Health Economics**, 5th edition and Feldstein J. Paul, **Health Policy Issues: An Economic Perspective**, 6th edition. In addition, a number of (optional) articles will accompany each topic we cover in class. All articles will be available for download from Canvas, which will serve as our primary communication channel. The URL is: <https://canvas.upenn.edu/courses/1333577>. You can log on using your usual username and password. Registered students will automatically have access to the course Canvas page.

Course Outline and Time Schedule

August 30 September 1 and September 6	Introduction: Does economics apply to health care? Is the health care sector different? and key challenges in the health care space. <i>Readings</i> Phelps, Chapters 1 Feldstein, Chapters 1, 2 and 3 Arrow, Kenneth “Uncertainty and the Welfare Economics of Medical Care” <i>American Economic Review</i> 1963; 53(5):941-973 Fuchs, Victor “The Health Sector’s Share of the Gross National Product,” <i>Science</i> 1990; 247: 534-538.
September 8 September 13 September 15 and September 20	Demand for Insurance; Individual and Group Insurance; Moral Hazard and Adverse Selection. <i>Readings</i> Phelps, Chapter 10 and 11 Manning, Willard, Joseph Newhouse, et al. “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment,” <i>American Economic Review</i> 1987; 77(3): 251-277. Pauly, Mark “The Economics of Moral Hazard: Comment,” <i>American Economic Review</i> 1968; 58(3): 531-537. Rothschild, Michael and Joseph Stiglitz “Equilibrium in Competitive Insurance markets: An Essay on the Economics of Imperfect Information,” <i>Quarterly Journal of Economics</i> 1976; 90: 629-650.
September 22 September 27 September 29 and October 4	Hospital Organization and Economic Behavior. <i>Readings</i> Phelps, Chapters 8 and 9 Feldstein, Chapters 14, 15, 16 and 17 David, Guy “The Convergence between Nonprofit and For-Profit Hospitals in the United States.” <i>International Journal of Health Care Finance and Economics</i> , Vol. 9(4), pp 403-428, December 2009.

David, Guy, Richard Lindrooth, Lorens Helmchen, and Lawton Burns. "Do Hospitals Cross Subsidize?" *Journal of Health Economics*. September 2014, Vol. 37, pp 198-218.

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

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.

Pauly, Mark and Michael Redisch "The Not-For-Profit Hospital as a Physicians' Cooperative", *American Economic Review*, 63; 87-100, 1973.

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.

October 11
October 13
and
October 18

The Pharmaceutical Industry.

Readings

Feldstein, Chapters 25, 26, and 28

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.

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.

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

October 20
October 25
and
October 27

The Physician.

Readings

Phelps, Chapters 6 and 7

Feldstein, Chapter 4

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

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.

November 1 **Introduction to Antitrust and Regulation in Health Care.**

and

November 3 *Readings*

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

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).

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*

November 8 **Pre-Hospital, Primary and Post-Acute Care Markets.**

November 10

and

November 15

Readings

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.

David, Guy, Philip Saynisch and Aaron Smith-McAllen “The Inner-Workings of the Patient-Centered Medical Home Model”, NBER Working Paper #.

Phillips, Robert L., Jr. and Andrew W. Bazemore, “Primary Care And Why It Matters For U.S. Health System Reform” *Health Affairs*, 29, no.5 (2010):806-810.

Huff, Charlotte, “Direct Primary Care: Concierge Care For The Masses” *Health Affairs*, 34, no.12 (2015):2016-2019.

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

Neuman, Patricia, Juliette Cubanski, and Anthony Damico., “Medicare Per Capita Spending By Age And Service: New Data Highlights Oldest Beneficiaries”, *Health Affairs*, February 2015 34: pp. 2335-339

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.

David, Guy, Dan Polsky and Evan Rawley “Integration and Task Allocation: Evidence from Patient Care.” *Journal of Economics and Management Strategy*, 2013.

Polsky, Dan, Guy David, Jianing Yang, Bruce Kinoshian, and Rachel Werner. “The Effect of Entry Regulation in the Health Care Sector: the Case of Home Health”, *Journal of Public Economics*, February 2014, Vol. 110, pp. 1–14.

November 17 **The value of saving a life**

Readings

Viscusi, Kip. "The Value of Risks to Life and Health" *Journal of Economic Literature* December 1993; 31: 1912-1946.

Rosen, Sherwin, "The Value of Changes in Life Expectancy," *Journal of Risk and Uncertainty*, 1988, 1, 285.304.

Thaler, Richard and Sherwin Rosen. "The Value of Saving a Life: Evidence from the Labor Market," in Household Production and Consumption ed. Nestor E. Terleckyj NBER 1976 pp. 265-298.

November 22 **EXAM**

November 29 **Concluding Remarks (TBD)**

December 1 **Student Presentations**
December 6
and
December 8
