

# Healthcare Services Delivery: A Managerial Economic Approach

HCMG 852 / 352

Spring 2022

TTR 1:45-3:15PM

JMHH 345

Professor Mark Pauly

Office hours: 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-acute care. This course focuses on three salient economic features of health care delivery (1) the role of incentives (financial and non-financial) for consumers and producers; (2) the inevitability of tradeoffs in making changes in the health care system; (3) the evidence (or the absence of evidence) on the existence and magnitudes of innovations intended to solve problems. We will rely heavily on the summaries of evidence on key problems in a forthcoming book by Penn faculty and administrators: *Seemed Like a Good Idea: Alchemy Versus evidence Based Approaches to Healthcare Management Innovation* (Cambridge University Press, 2022). Topics to be addressed include the role of nonprofit providers, the effects of regulation and antitrust activity on hospitals, the degree of input substitutability and coordination within hospitals (especially the actions of physicians), care coordination and transitional care, behavioral economic evidence on incentives for patients and doctors, information technology, provider payment to incentivize value, innovative models of primary care delivery, and the shifting of services between inpatient and outpatient settings and its effect on health care costs and quality.

## **Grading**

- Class Participation 20%
- Midterm Exam 60%
- Student presentation 20%

## **WebCafe**

We have established a CANVAS site for HCMG852. This will serve as our primary communication channel. You can log on using your usual Wharton username and password. Registered students will automatically have access. Others can get an 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 CANVAS, contact the CANVAS Team at: [courseware@wharton.upenn.edu](mailto:courseware@wharton.upenn.edu).

**Readings:** All readings will appear in an electronic format on Canvas. All readings below, *except for book chapters*, are suggested and hence, optional. Chapters in the book *Seemed like a Good Idea* are required. Most readings will be discussed in the classroom.

**Personas:** In the second class I will ask you to select a “managerial persona,” a hypothetical identity as a manager or advisor somewhere in the health system which you will use to answer in class questions about how you would make or advise a decision on some innovation or change in health care management. You might choose CEO of a health system, medical director for a large employer, vice president for public policy for a commercial insurance company, president of a foundation for health improvement, or deputy assistant secretary for health etc.

**Student Presentations:** Details to be provided separately

## **Dates, Topics, and Reading Assignments**

**Tuesday, January 18**

### **Introduction to the course and the overall performance of US healthcare managers: Pick a persona; Of ratholes and tapeworms?**

Pauly, Mark V. 1993. "U.S. Health Care Costs: The Untold True Story." *Health Affairs* 12(Fall): 152-159.

**Thursday, January 20**

### **Should a manager always make decisions based on the best evidence available at the time?**

Pauly, Mark V. 2021. "The Benchmark Decision Model, the Value of Evidence, and Alternative Decision Processes." Chapter 3 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

**Tuesday, January 25**

### **Objectives of organizations and why they matter for economic incentives: investor owned, not-for-profit, professional partnership, mutual insurer**

Frank, Richard and David Salkever. 1994. "Non profit Organizations in the Health Sector." *Journal of Economic Perspectives* 8:129-144.

Nicholson, Sean, et al. 2000. "Measuring Community Benefits Provided By For-profit And Nonprofit Hospitals." *Health Affairs* 19(6).

David, Guy and Lorens A. Helmchen. 2006. "An Uncertain Prescription: Are Tax Exemptions for Nonprofit Hospitals an Efficient Way to Fund Indigent Care?" *Regulation* 29 (2)(June): 14-16.

Sloan, Frank A, et al. 2001. "Hospital Ownership and Cost and Quality of Care: Is There a Dime's Worth of Difference?" *Journal of Health Economics* 20(1)(January): 1-21

Mueller, Benjamin. 2021. "They Shunned Covid Vaccines but Embraced Antibody Treatment." *New York Times*, September 19.

Koller, Christopher F. 2021. "States Start to Move Away from Health Care Cost Shifting." *Milbank Blog*, March 28.

**Thursday, January 27**

### **Hospital-physician integration and coordination: economic theory of the inextricably intertwined**

Burns, Lawton R., et al. 2021. "Vertical Integration of Physician and Hospitals: Three Decades of Futile Building upon a Shaky Foundation" Chapter 6 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

Pauly Mark V. and Michael Redisch. 1973. "The Not-for-Profit Hospital as a Physicians' Cooperative." *American Economic Review* (March).

Pauly Mark V. 1980. *Doctors and Their Workshops: Economic Models of Physician Behavior*. University of Chicago Press: Chicago, IL.

Kanter, Genevieve P. and Mark V. Pauly. 2019. "Coordination of Care or Conflict of Interest? Exempting ACOs from the Stark Law." *New England Journal of Medicine* 380(5)(January 1): 410-411.

**Tuesday, February 1**

### **Hospital and Physician Office Production: factor substitution; economies or diseconomies of scale and scope.**

Grannemann Thomas W., et al. 1986. "Estimating Hospital Costs: A Multiple-Output Analysis." *Journal of Health Economics* 5: 107-127.

Pauly Mark V. 1978. "Medical Staff Characteristics and Hospital Costs." *Journal of Human Resources* (Supplement).

Burns, Lawton R., et al. 2014. "Horizontal and Vertical Integration of Physicians: A Tale of Two Tails." *Annual Review of Health Care Management: Revisiting The Evolution of Health Systems Organization* (Advances in Health Care Management, Vol. 15), Emerald Group Publishing Limited, Bingley, pp. 39-117.

### **Thursday, February 3**

#### **Insurance incentives for patients, doctors, and hospitals: economic and behavioral theories of how to get along**

Choudry, Niteesh K., et al. 2011. "Full Coverage for Preventive Medications after Myocardial Infarction" *NEJM* 365:2088-2097.

Pauly Mark V. and Philip J. Held. 1990. "Benign Moral Hazard and the Cost-Effectiveness Analysis of Insurance Coverage." *Journal of Health Economics* 9(4): 447-461.

Pauly, Mark V. and Frederic E. Blavin. 2008. "Moral Hazard in Insurance, Value-based Cost Sharing, and the Benefits of Blissful Ignorance." *Journal of Health Economics* 27(6)(December): 1407-1417.

Baicker, Katherine, et al. 2015. "Behavioral Hazard in Health Insurance." *The Quarterly Journal of Economics* 130(4)(November): 1623-1667.

Breyer F, Bundorf MK, Pauly MV. Health Care Spending Risk, Health Insurance, and Payment to Health Plans. *Handbook of Health Economics*, Vol. 2, MV Pauly, TG McGuire, and PP Barros, eds. (North-Holland/Elsevier: Amsterdam, 2012) Chapter 11.

Gladwell, Malcolm. 2005. "The Moral-Hazard Myth." *The New Yorker*, August 29.

### **Tuesday, February 8**

#### **What behavioral economics can and cannot tell us. Kevin Volpp, University of Pennsylvania**

Volpp, Kevin and Mark V. Pauly. 2021. "Evidence on Ways to Bring about Effective Consumer and Patient Engagement." Chapter 8 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

### **Thursday, February 10**

#### **Low value care: how much and why? Aaron Schwartz, University of Pennsylvania**

### **Tuesday February 15**

#### **Primary care trends and evidence: Matthew Press, University of Pennsylvania**

Pauly Mark V. and Philip J. Held. 1990. "Benign Moral Hazard and the Cost-Effectiveness Analysis of Insurance Coverage." *Journal of Health Economics* 9(4): 447-461.

Hanlon, Alexandra L, et al. Medical Complexity Mediates Healthcare Resource Use in the Socially Vulnerable." Forthcoming, *Journal of Healthcare Management*

David, Guy, et al. 2018. "The Economics of Patient- Centered Care." *Journal of Health Economics* 59: 60-77.

Phillips, Robert L., Jr. and Andrew W. Bazemore. 2019. "Primary Care And Why It Matters For U.S. Health System Reform." *Health Affairs* 29(5) :806-810.

### **Thursday February 17**

#### **Primary and preventive care: Is an ounce of prevention always worth a pound of cure? Or maybe only half an ounce?:**

Burns, Lawton R. and Rachel Werner. 2021. "Care Coordination." Chapter 4 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

## **Tuesday, February 22**

### **Where things fall apart: Care transitions from hospital to home or post-acute care. And vice versa: can bundled payment help?**

Naylor, Mary and Rachel Werner. 2021. "Evidence based Programs to Improve Transitional Care of Older Adults" Chapter 5 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

Pauly, Mark. 2021. "Baseline Observations." Chapter 1 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

Medpac. 2019. "Update: MedPAC's evaluation of Medicare's Hospital Readmission Reduction Program." Available online at: <http://www.medpac.gov/-blog-/update-on-medpac-s-evaluation-of-medicare-s-hospital-givereadmission-reduction-program/2019/12/02/update-medpac-s-evaluation-of-medicare-s-hospital-readmission-reduction-program>

Ody, Christopher, et al. 2019. "Decreases In Readmissions Credited To Medicare's Program To Reduce Hospital Readmissions Have Been Overstated." *Health Affairs* 38(1)(January): 36-43.

Newhouse, Joseph. 2013. "Geographic Variation in Medicare Services." 2013. *NEJM* 368: 1465-1468.

Navathe, Amol S., et al. 2020. "Spending And Quality After Three Years Of Medicare's Voluntary Bundled Payment For Joint Replacement Surgery." *Health Affairs* 39(1). Available online at: <https://doi.org/10.1377/hlthaff.2019.00466>

## **Thursday February 24**

### **The transitional care model and other evidence based interventions. Mary Naylor, University of Pennsylvania**

## **SPRING BREAK**

## **Tuesday March 15**

### **Virtual care: has its time finally come or are there obstacles in the way of progress**

Werner, Rachel and Sherry A. Glied. 2021. "Covid-induced Changes in Health care Delivery: Can They Last?" *NEJM* 385:868-870.

## **Thursday March 17**

### **Evidence and prospects of greater use of IT in care delivery: Krisda Chaichachati, University of Pennsylvania**

Chaichachati, Krisda and Bimal Desai. 2021. "The Unmet and Evolving Need for Evidence -based Telehealth." Chapter 9 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

## **Thursday March 24**

### **Economic theories of value-based everything: why competition does it automatically: Congressman Anthony Gonzalez, "Politics and Health Insurance"**

Muller, Ralph and Mark V. Pauly. 2021. "Evidence on Provider Payment and Medical Care Management." Chapter 7 in *Seemed Like a Good Idea*. Cambridge, U.K: Cambridge University Press.

## **Thursday March 31**

### **The source of all good and evil in health care management: health insurance and the tax exclusion**

Gruber, Jonathan. 2011. "The Tax Exclusion for Employer-sponsored Health Insurance." *National Tax Journal* 64(2.2).

Thune, John. 2017. "Walk and Chew Gum." Available online at:  
<https://www.thune.senate.gov/public/index.cfm/2017/7/walk-and-chew-gum>

Phelps, Charles E. and Stephen T. Parente. 2018. *The Economics of US Healthcare Policy*. New York: Routledge.

Cogan, John E., et al. 2011. *Healthy, Wealthy, and Wise*, 2<sup>nd</sup> edition. Washington, DC: Hoover Institution Press.

**Tuesday March 29**

### **Inside the Doctors' Workshop: Hospital, Medical Staff, and Individual Physician Coordination, Rob Burns and Ralph Mueller**

**Tuesday April 5**

### **Economists, competition, and antitrust in health care: progress or regression?**

Burns, Lawton R. and David Dranove. 2021. "The Fall and Rise of the Antitrust Agencies." Chapter 4 in *Big Med*. Chicago: University of Chicago Press.

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

Capps, Cory, et al. 2020. "Antitrust Treatment of Nonprofits: Should Hospitals Receive Special Care?" *Economic Inquiry* 58(3): 1183-1199.

**Thursday April 7**

### **Antitrust in health law: Current situation: Rob Field, Drexel University Law School**

Pauly, Mark V. 2019. Giving Competition in Medical Care and Health Insurance a Chance. Mercatus Research.

**Tuesday April 12**

Course midterm exam

**Thursday April 14**

### **Pricing of brand Name Single Sources Drugs for your insurance plan: Simple Monopoly or Netflix?**

Frech, Ted, et al. "The Costs and Benefits of Branded Drugs: Insights from Cost Effectiveness Research."

**Tuesday, April 19**

### **What if waste is much smaller than most think? Good news or bad news?**

Pauly, Mark V. 2008. "'We Aren't Quite as Good, But We Sure Are Cheap': Prospects for Disruptive Innovation In Medical Care And Insurance Markets." *Health Affairs* 27(5). Available online at:  
<https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.27.5.1349?journalCode=hlthaff>

Reports of the Health Affairs cost study commission, TO BE ADDED

**Thursday April 21**

### **Reports from student teams**

