

Economics 307
Economics of Medical Care
Fall 2020

Instructor

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Lectures: Tue, Thur 1:00 pm – 2:20 pm, Zoom

Office hours: Fridays 2:00-3:30 pm (Zoom) or by appointment

Teaching Assistant

Honn Tai Lam

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TA sections: Fri 1:00-1:50 pm (Zoom)

Office hours: Wed 3:00-4:00 pm (Zoom)

Course Description

This class will help students understand the key economic forces that have shaped the US health care and health insurance industry. What role do the particularities of health care and health insurance as economic goods play in explaining the size and growth rate of the health care sector? What's the effect of private incentives, adverse selection, moral hazard, and regulation? What's the effect of different organizational structures of health care provision? What can we learn from comparing the US health care / health insurance system to other countries' systems? Students will learn how a better understanding of these issues can inform the current public policy discussion.

Prerequisites

Economics 281, 310-1

Mode of Instruction

All lectures and discussion sections will be exclusively taught online via zoom.

Students are strongly encouraged to attend classes live, at the times given above. However, students who cannot attend classes live (e. g. due to time zone or internet connectivity issues) will get access to video recordings:

“This class or portions of this class will be recorded by the instructor for educational purposes. These recordings will be shared only with students enrolled in the course and will be deleted at the end of the end of the Fall Quarter, 2020 course. Your instructor will communicate how you can access the recordings.

Unauthorized student recording of classroom or other academic activities (including advising sessions or office hours) is prohibited. Unauthorized recording is unethical and may also be a violation of University policy and state law. Students requesting the use of assistive technology as an accommodation should contact [AccessibleNU](#). Unauthorized use of classroom recordings – including distributing or posting them – is also prohibited. Under the University’s [Copyright Policy](#), faculty own the copyright to instructional materials – including those resources created specifically for

the purposes of instruction, such as syllabi, lectures and lecture notes, and presentations. Students cannot copy, reproduce, display, or distribute these materials. Students who engage in unauthorized recording, unauthorized use of a recording, or unauthorized distribution of instructional materials will be referred to the appropriate University office for follow-up.”

Grading

Grading is based on the final take-home (45 %), midterm take-home (35 %), and class participation (20 %), which includes 5 problem sets (due dates see below).

The midterm take-home will be due on **Friday, October 23, 4:00 pm CST**. The final take-home will be due on **Thursday, December 3, 11:00 am CST**. Problem sets and take-homes will be submitted through Crowdmark.

The problem sets will be due at **10:00 am CST** on the following dates:

- October 2
- October 16
- October 30
- November 6
- November 20

Readings and Textbook

This course will feature readings from these textbooks:

- Bhattacharya, Hyde and Tu: “Health Economics”, 2013 (“**BHT**”)
- Deaton, A, “The Great Escape: Health, Wealth and the Origins of Inequality”, 2015
- Folland, Goodman, and Stano, “The Economics of Health and Health Care”, 6th ed (2012) (“**FGS**”)
- Gruber, J, “Public Finance and Public Policy”, 4th ed (2012)
- Henderson, J, “Health Economics and Policy”, 6th ed (2014)
- Santerre and Neun, “Health Economics”, 6th ed (2012) (“**SN**”)

All the readings from the above textbooks are available under the “Course Reserves” tab on Canvas. Since the topic of health care reform is a subject of ongoing debate, I will also post supplemental articles of interest on Canvas. Other readings are available online. For some articles, such as those hosted by scholarly journals or on JSTOR, you will need to access the papers (through the links below) while on campus or via using Northwestern VPN. Northwestern University covers the subscription fees to access these resources.

Academic accommodation

Any student with a verified disability requiring special accommodations should speak to me, in office hours or via email, and to the AccessibleNU (847-467-5530) as early as possible in the quarter, ideally in the first week, to arrange appropriate accommodation. All discussions with me and with AccessibleNU will remain confidential.

Course Outline

1. September 17: Introduction

- FGS, pp. 1-17; Gruber, pp. 419-431
- Sanger-Katz, Margot, "[In the U.S., an Angioplasty Costs \\$32,000. Elsewhere? Maybe \\$6,400](#)", *The New York Times*, Dec 27, 2019

2. September 22: Cost-Benefit analysis, Valuing Health

- Henderson, pp. 110-121; SN, pp. 83-100
- Viscusi, W. K., 2008, "[The Value of Life](#)" Vanderbilt University Law School Working Paper
- Phillips, Ceri, 2009, "[What is a QALY?](#)"
- [Pricing Human Life](#) blog post by Uwe Reinhardt
- Henriques, Diana, 2001, "[In Death's Shadow, Valuing Each Life](#)", *The New York Times*, Dec 30, 2001
- McGinty, Jo Craven, "[Why the Government Puts a Dollar Value on Life](#)", *The Wall Street Journal*, March 25, 2016

3. September 24: The 'Production' of Health I

- FGS, pp. 85-102; Deaton, pp. 59-73, 81-100;
- Cutler, D, Deaton, A, and Lleras-Muney, A, 2006, "[The Determinants of Mortality](#)", *Journal of Economic Perspectives*, 20(3), 97-120
- Preston, Sam, 1996, "[American Longevity: Past, Present, and Future](#)", Syracuse University Policy Brief No. 7/1996.
- Buxbaum, Jason D, et al, "[Contributions Of Public Health, Pharmaceuticals, And Other Medical Care To US Life Expectancy Changes, 1990-2015](#)", *Health Affairs*, 39(9), 1546-1556

4. September 29: The 'Production' of Health II

- Almond, Douglas, et al. 2010, "[Estimating Marginal Returns to Medical Care: Evidence from At-risk Newborns](#)", *QJE* 125(2), 591-634
- Chetty, Raj, et al. 2016, "[The Association Between Income and Life Expectancy in the United States, 2001-2014](#)", *JAMA* 315(16), pp. 1750-1766

5. October 1: The Production, Cost and Technology of Health Care

- FGS, pp. 105-113
- Card, David, Dobkin, Carlos, and Nicole Maestas: "[Does Medicare Save Lives?](#)", NBER WP No. 13668
- Gawande, A., 2010, "[The Cost Conundrum](#)", *The New Yorker*, June 1 2009
- Cutler, D, and McClellan, M, 2001 "[Is Technological Change in Medicine Worth It?](#)", *Health Affairs* 20(5), 11-29

6. October 6: Consumer choice Theory and Demand for Health Care, I

- BHT, pp. 8-23; FGS, pp. 173-180
- Gawande, A., 2011, "[The Hot Spotters](#)", *The New Yorker*, January 24 2011
- Robinson, J and Ginsburg, P., 2009, "[Consumer-Driven health Care: Promise and Performance](#)", *Health Affairs* 28(2), w272-w281

7. October 8: Consumer choice Theory and Demand for Health Care, II

- Manning, Willard, et al., 1987 “[Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment](#)”, *American Economic Review* 77(3), 251-277

8. October 13: Health Insurance I

- BHT, pp. 126-137
- Buchmueller, T. 2006, “[Consumer Demand for Health Insurance](#)” NBER Research Summary

9. October 15: Health Insurance II

- Gruber, J. 2006, “[The Role of Consumer Copayments for Health Care: Lessons from the RAND Health Insurance Experiment and Beyond](#)”, Kaiser Family Foundation
- Goodell and Swartz, 2010, “[Cost-sharing: Effects on Spending and Outcomes.](#)” Robert Wood Johnson Foundation Synthesis Project Policy Brief No. 20
- Carroll, Aaron E., “[Even a Modest Co-Payment Can Cause People to Skip Drug Doses](#)”, *The New York Times*, Nov 11, 2019

10. October 20: Health Insurance III: Asymmetric Information

- BHT, pp. 141-155
- Cutler, D, and Zeckhauser, R, 1997, “[Adverse Selection in Health Insurance](#)”, NBER Working Paper 6107

11. October 22: Health Insurance IV, Managed Care

- FGS, pp. 236-245; Henderson, pp. 210-222
- Miller, R. and H. Luft, 2002, “[HMO Plan Performance Update: An Analysis of the Literature, 1997-2001](#)” *Health Affairs*, 21(4): 63-86
- Frakt, Austin, “[Accountable Care Organizations: Like H.M.O.s, but Different](#)”, NYT

12. October 27: Health Insurance V, Health insurance and the labor market, discrimination, rationing

- Summers, L, 1989, “[Some Simple Economics of Mandated Benefits](#)”, *AER* 79(2), 177-183
- Blumberg, L. 1999, “[Perspective: Who Pays For Employer-Sponsored Health Insurance?](#)” *Health Affairs*, 18(6), 58-61
- Madrian, B., 2006, “[The U.S. Health Care System and Labor Markets](#)” NBER Working Paper No. 11980
- Garthwaite, C, et al., 2014, “[Public Health Insurance, Labor Supply, and Employment Lock](#)”, *Quarterly Journal of Economics*, 129(2)

13. October 29: Hospitals, Pay-for-performance, Nonprofits

- BHT pp. 100-119, SN pp. 397-428
- Reinhardt, U., 2006,, “[The Pricing of U. S. Hospital Services: Chaos Behind A Veil of Secrecy](#)”, *Health Affairs*, 25(1), 57-69
- Cutler, D, and Scott Morton, F, 2013, “[Hospitals, Market Share, and Consolidation](#)”, *JAMA* 310(18), 1964-1970
- Cooper, Zack, et al., “[The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured](#)”, NBER WP 21815

14. November 3: Physicians

- SN pp. 364-375
- Baicker, K, Fisher, E, Chandra, A., 2007, “[Malpractice Liability Costs and the Practice of Medicine in the Medicare Program](#)”, *Health Affairs*, 26(3): 841-852
- Gruber, J, Owings, M, 1996, “[Physician Financial Incentives and Cesarean Section Delivery](#)”, RAND Journal of Economics 27(1), 99-123

15. November 5: The pharmaceutical industry, Health Care and Technological Change, the Health Care Quadrilemma

- BHT pp. 230-236; FGS pp. 354-364; Henderson pp. 288-308
- Aitken, M, et al., 2016, “[Has The Era Of Slow Growth For Prescription Drug Spending Ended?](#)”, Health Affairs
- Congressional Budget Office, 2008, “[Technological Change and the Growth of Health Care Spending](#)”
- (Optional): Scott Morton, F, and Lysle Boller (2017) “[Enabling Competition in Pharmaceutical Markets](#)”, Hutchins Center Working Paper #30, Brookings Inst.

16. November 10: Health Care and Technological Change

- Weisbrod, B., 1991, “[The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment](#)” Journal of Economic Literature, 29: 523-552
- Congressional Budget Office, 2008, “[Technological Change and the Growth of Health Care Spending](#)”

17. November 12: The effects of Government Intervention in Health Care Markets

- BHT pp. 384-393, FGS pp. 440-451, Gruber pp. 453-476
- Brown, David, Kowalski, Amanda, Lurie, Ithai, “[Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts?](#)”, NBER WP 20835
- Wherry, LR; Miller, S; Kaestner, R; Meyer, Bruce D (2018): “[Childhood Medicaid Coverage and later life health care utilization](#)”, The Review of Economics and Statistics 100(2)

18. November 17: Comparative Health Care Systems and Health Care Reform, Part I

- Anderson, G, et al., 2003, “[It’s The Prices, Stupid: Why The United States Is So Different From Other Countries](#)”, *Health Affairs*, 22(3), 89-105
- Papanicolas, I., et al, 2018, “[Health Care Spending in the United States and Other High-Income Countries](#)”, JAMA 319(10), pp. 1024-1039
- Cutler, D, and Ly, D, 2011, “[The \(Paper\)Work of Medicine: Understanding International Medical Costs](#)”, Journal of Economic Perspectives 25(2), 3-25

19. November 19: Comparative Health Care Systems and Health Care Reform, Part II

- Sommers, B, et al., 2017 “[Health Insurance Coverage and Health – What the Recent Evidence Tells Us](#)”, NEJM 377(6), 586-593
- Goldin, J, et al., 2019, “[Health Insurance and Mortality: Experimental Evidence from Taxpayer Outreach](#)”, NBER WP 26533
- Kaiser Family Foundation, 2010, “[Explaining Healthcare Reform: What are Health Insurance Exchanges?](#)”
- Readings available on *Canvas* prior to class

20. November 24: Comparative Health Care Systems and Health Care Reform, Part III; Review

- Readings available on *Canvas* prior to class