

**Economics 307**  
Economics of Medical Care  
Spring 2025

**Instructor**

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*Lectures:* Mon, Wed 11:00 am – 12:20 pm, 555 Clark St B03

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**Teaching Assistant**

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**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

**Syllabus Standards**

This course follows the [Northwestern University Syllabus Standards](#). Students are responsible for familiarizing themselves with this information.

**Grading**

Grading is based on Exam 1 (40 %), Exam 2 (40 %), and class participation (20 %), which includes 5 problem sets (due dates see below).

Exam 1 (60 minutes) is on **Friday, May 2**, during the regular section time. Exam 2 (60 minutes) will be on **Friday, May 30**, during the regular section time.

The problem sets will be due **at 11:00 am** on the following dates:

- April 11
- April 28
- May 9
- May 16
- May 23

## 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”, 6<sup>th</sup> ed (2012) (“**FGS**”)
- Gruber, J, “Public Finance and Public Policy”, 4<sup>th</sup> ed (2012)
- Henderson, J, “Health Economics and Policy”, 6<sup>th</sup> ed (2014)
- Santerre and Neun, “Health Economics”, 6<sup>th</sup> 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.

## Course Outline

### 1. April 1: 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. April 2: Cost-Benefit analysis, Valuing Health

- Henderson, pp. 110-121; SN, pp. 83-100
- (Optional) 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. April 7: 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. April 9: 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. April 14: 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. April 16: 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. April 21: 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
- Gruber, J. 2006, “[The Role of Consumer Copayments for Health Care: Lessons from the RAND Health Insurance Experiment and Beyond](#)”, Kaiser Family Foundation

#### 8. April 23: Health Insurance I

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

#### 9. April 28: Health Insurance II: Asymmetric Information

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

#### 10. April 30: Health Insurance III, 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

### May 2: Exam 1

#### 11. May 5: 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., 2015, “[The Price Ain’t Right? Hospital Prices and Health Spending on the Privately Insured](#)”, NBER WP 21815

## 12. May 7: 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

## 13. May 12: The pharmaceutical industry

- 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*
- (Optional): Scott Morton, F, and Lysle Boller (2017), “[Enabling Competition in Pharmaceutical Markets](#)”, Hutchins Center Working Paper #30, Brookings Inst.

## 14. May 14: 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](#)”

## 15. May 19: Government Intervention in Health Care Markets: Medicare/Medicaid

- 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)

## 16. May 21: 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

## 17. May 28: Comparative Health Care Systems and Health Care Reform, Part II

- 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?](#)”
- Sommers, B, et al., 2017 “[Health Insurance Coverage and Health – What the Recent Evidence Tells Us](#)”, *NEJM* 377(6), 586-593
- Readings available on *Canvas* prior to class

## May 30: Exam 2