

PH626 Health Economics
University of Hawai'i at Mānoa
Spring 2012

Instructor: Dr. Jaelyn Lindo
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Meeting time: R 4:15 – 7:00pm
Room: BioMed C-104
Office hours: By appointment

Course Description

This course is intended to provide an understanding of traditional issues in health economics. Economic theory will be applied to analyze the behavior of consumers, healthcare providers, health insurers and policymakers and their interactions that determine the allocation of scarce resources and the production and consumption of healthcare services. There is further focus on the uncertainty, asymmetric information, moral hazard and adverse selection that differentiate the market for healthcare from other markets.

Course Learning Objectives

Upon conclusion of the course, students will have the tools to:

- 1) Describe the institutional structure of the healthcare sector in the U.S.
- 2) Understand and analyze current and future healthcare issues from an economic perspective.
- 3) Discuss the public policy issues that surround the production, distribution and consumption of healthcare services with health economists and others.
- 4) Critically analyze the vast array of literature produced by health economists and related researchers.

Course Organization

This course will primarily follow a lecture format, with extensive opportunities for student input, participation and discussion. Students are encouraged to ask questions, raise issues, critique or share relevant experience and knowledge on assigned readings and other course-related topics.

Recommended Text

Folland, Sherman, Allen C. Goodman and Miron Stano. *The Economics of Health and Health Care*, 6th ed., Upper Saddle River, NJ: Pearson/Prentice Hall. 2010.

Hard cover ISBN: 9780136080305

eText ISBN: 9780136080336; available at www.coursesmart.com

Grading

Response paper 1	15 points (5%)
Response paper 2	15 points (5%)
Response paper 3	15 points (5%)
Midterm exam 1	45 points (15%)
Midterm exam 2	45 points (15%)
Research paper	90 points (30%)
Presentation	45 points (15%)
Class participation	30 points (10%)
Total	200 points

The standard + / – grading scale will be used.

“A” range: 90% – 100%

“B” range: 80% – 89%

“C” range: 70% – 79%

“D” range: 60% – 69%

“F”: ≤ 59%

Response Papers

Students will submit a written response to three assigned articles of their choice. Response papers must be submitted in hard copy by the day the topic/article is scheduled to be covered in lecture. It should be no less than 1 and no more than 2 pages of *quality* text, double-spaced. The response should NOT be a summary of the article. The response should reflect the student’s critical analysis ability and should be thoughtful, well-organized and grammatically correct. Incorporation of concepts or theories discussed in class is a plus.

Midterm Exams

Students will have the entire class period to take each midterm exam. The exam format will consist primarily of short answer questions. To receive full credit, responses should include both prose and graphical components.

Research Paper

Students will submit a research paper on a topic of their choice. A list of possible topics will be provided, however, students may select any issue related to health economics ***with Instructor approval***. The research paper should be not less than 10 and not more than 15 pages of *quality* text. There is a three-part process to completing the research paper. All three parts of the process factor into the overall research paper grade.

a) Research Proposal (10 points)

Students will submit a research proposal in hard copy. The proposal should include the intended research topic phrased as a *specific* question, a detailed

description of the scope of research and a list of at least 5 journal articles. All 10 points will be awarded if the proposal is submitted as described.

b) Draft Paper (35 points)

Students will submit a draft of the research paper in hard copy. The draft should be a *completed* first attempt of the research paper. Therefore, it should be fully organized and contain an introduction, a body, a conclusion, all necessary citations and a list of references. It should NOT contain incomplete sentences or sections, bullet points, descriptions of what is planned for inclusion, etc. The Instructor will read through the draft in its entirety and will provide detailed feedback with suggested improvements. All 35 points will be awarded if the draft satisfies the description above and is submitted on time.

c) Final Paper (45 points)

Students will submit a final draft of the research paper in hard copy. Points will be awarded based on content, organization, grammar, support, analysis, incorporation and relevance of sources and application of concepts and theories discussed in lecture. Upon review of the draft, the Instructor will include a “mock” final grade out of 45 points. If the student is satisfied with this mock final grade, it will be counted as the grade for the Final Paper and the student does not need to make further revisions or submissions. However, to earn a higher grade for the Final Paper, the student can make revisions and submit a revised Final Paper by the due date specified below.

Presentations

Students will give a 15 minute presentation on their paper topic. Students are required to use a visual medium (or media) of their choice. It is expected that students will be suitably prepared, meaning that presenters will NOT simply read from the employed visual media. Following each presentation, observing students will have 5 minutes to ask questions. Student presentations will occur on the last two days of lecture, and students will be randomly assigned to a presentation day. Failure to attend presentations on both days will result in a zero for the Presentation grade.

Class Participation

To enhance the learning experience and broaden discussion of course material, students are expected to be active participants during lecture. There will be ample opportunity for student contribution, question and discussion. Because students are expected to have completed the required reading prior to lecture, they will always have relevant material to discuss. While regular participation by each student is desired, the quality of participation is also important.

Course Policies

Students are expected to submit all assignments on time. For each day a response paper, or research paper proposal or draft is late, the total possible score will decrease by 10 percent. So, for example, if the Draft Paper is one day late, the total possible points that could be awarded is 22.5. If a response paper is two days late, the total possible points that could be awarded is 8. Late submissions of the final draft of the research paper will NOT be accepted. Early and make-up exams are NOT offered.

Academic Integrity

It is expected that students are aware of and will abide by the University's academic integrity policy, found at <http://www.catalog.hawaii.edu/about-uh/campus-policies1.htm#integrity>. Violations of the stated policy will not be tolerated and appropriate disciplinary measures will be taken.

Suggested Research Topics

- (1) The cost-efficiency of health maintenance organizations (HMOs)
- (2) For-profit vs. non-profit healthcare providers: what are the behavioral differences?
- (3) The growth of home health care
- (4) The impact of diagnostic related groups (DRGs) on technological change
- (5) The impact of prospective payment (DRGs) on healthcare expenditures and healthcare quality
- (6) The uninsured and underinsured in the U.S. vs. Hawaii
- (7) The nursing (or specialist) shortage in Hawaii: is there one? Why?
- (8) Physician-induced demand: how significant is this phenomenon?
- (9) Financing long-term care: a critique of proposals
- (10) An analysis of a specific county's healthcare system or an international comparison: Japan, United Kingdom, Korea, The Netherlands, Germany, Canada, Sweden, New Zealand, Taiwan, the Philippines
- (11) Does prospective payment result in cost shifting?
- (12) Aging in Japan, Italy and the U.S.: implications for healthcare financing
- (13) An economics analysis and critique of the Medicare Drug Plan (Part D)
- (14) Pay-for-performance (value-based payment): is it effective? What are the arguments in favor of and against it?
- (15) Hawaii's Prepaid Health Care Act of 1974: the impact on uninsurance rates, health insurance premiums
- (16) Health insurance exchanges: how would their introduction change the current health insurance market
- (17) Treatment vs. prevention: are preventive services cost efficient?
- (18) The economics of blood & organ policies in the U.S.

Course Schedule

<u>Date</u>	<u>Topic</u>
1/12/12	Introduction Course overview Economic methods *Folland, Sherman, Allen C. Goodman and Miron Stano (2010). <i>The Economics of Health and Health Care</i> , 6 th ed., Upper Saddle River, NJ: Pearson/Prentice Hall. (Hereafter “FSG”) Chapter 1
1/19/12	Economic foundations: supply & demand *FSG, Chapter 2 Economic foundations: consumer theory *FSG, Chapter 2 Phelps, Charles (2010). <i>Health Economics</i> , 4 th ed., Boston, MA: Addison Wesley, Chapter 2. (Hereafter “Phelps”)
1/26/12	How is health economics different? *Arrow, Kenneth J. (1963). “Uncertainty and the welfare economics of medical care,” <i>American Economic Review</i> , 53(5): 941-73. Phelps, Chapter 1. The production of health FSG, Chapters 5 Phelps, Chapter 3
2/2/12	** Research Proposals Due with ≥ 5 Reputable References ** Smith, James P. (1999). “Healthy bodies and thick wallets: the dual relation between health and economic status,” <i>Journal of Economic Perspectives</i> , 13(2): 145-66.

* Indicates required reading.

<u>Date</u>	<u>Topic</u>
	<p>Demand for health capital</p> <p>*FGS, Chapter 7</p> <p>Grossman, Michael (1972). "On the concept of health capital and the demand for health," <i>Journal of Political Economy</i>, 80(2): 223-55.</p>
2/9/12	<p>Demand for medical care & consumer choice</p> <p>*FGS, Chapter 9</p> <p>Phelps, Chapters 4 & 5</p> <p>Demand for health insurance – expected utility, risk aversion</p> <p>*FGS, Chapter 8</p> <p>*Adigozel, Ogur, Thomas M. Pellathy and Shubham Singhal (2009). "Why understanding medical risk is key to U.S. health reform," <i>The McKinsey Quarterly</i>.</p> <p>Phelps, Chapter 10</p>
2/16/12	<p>Imperfect information: moral hazard</p> <p>*FGS, Chapter 8</p> <p>*Pauly, Mark V. (1968). "The economics of moral hazard: Comment," <i>American Economic Review</i>, 58(3): 531-37.</p> <p>Arnott, Richard J. and Joseph E. Stiglitz (1988). "The basic analytics of moral hazard," <i>Scandinavian Journal of Economics</i>, 90(3): 383-413.</p> <p>Pauly, Mark. V. (1974). "Overinsurance and public provision of insurance: the roles of moral hazard and adverse selection," <i>Quarterly Journal of Economics</i>, 88(1): 44-62.</p>

* Indicates required reading.

Date Topic

Shavell, Steven (1979). "On moral hazard and insurance," *Quarterly Journal of Economics*, 93(4): 541-62.

Feldman, R. and B. Dowd (1991). "A new estimate of the welfare loss of excess health insurance," *American Economic Review*, 81(1): 297-301.

Manning, Willard G. and M. Susan Marquis (1996). "Health insurance: the tradeoff between risk pooling and moral hazard," *Journal of Health Economics*, 15: 609-40.

Phelps, Chapter 10

Problems of imperfect information: adverse selection

*FGS, Chapter 10

*Akerlof, George A. (1970). "The market for 'lemons': qualitative uncertainty and the price mechanism," *Quarterly Journal of Economics*, 84(3): 488-500.

Health insurance and the demand for medical care

*FGS, Chapter 9 (review notes from this section)

*Manning, Willard G., Joseph P. Newhouse, Naihua Duan, Emmett B. Keeler and Arleen Leibowitz (1987). "Health insurance and the demand for medical care: evidence from a randomized experiment," *American Economic Review*, 77(3): 251-77.

Lohr, Kathleen N., Robert H. Brook, Caren J. Kamberg, George A. Goldgerg, Arleen Leibowitz, Joan Keeseey, David Reboussin and Joseph P. Newhouse (1986). "Use of medical care in the Rand Health Insurance Experiment: diagnosis- and service-specific analyses in a randomized controlled trial," *Medical Care*, 24(9, Supplement): S1-87.

* Indicates required reading.

Date

Topic

The impact of health insurance on health

*Brook, Robert H. et al. (1983). "Does free care improve adults' health?: Results from a randomized controlled trial," *New England Journal of Medicine*, 309(23): 1426-34.

*Rogers, William H. et al. (1991). "Effects of cost sharing in health insurance on disability days," *Health Policy*, 18(2): 131-9.

Hadley, Jack and Timothy Waidmann (2006). "Health insurance and health at age 65: implications for Medicare spending on new beneficiaries," *Health Services Research*, 41(2): 429-51.

Freeman, Joseph D., Sirkanth Kadiyala, Janice F. Bell and Diane P. Martin (2008). "The causal effect of health insurance on utilization and outcomes in adults: a systematic review of U.S. studies," *Medical Care*, 46(10): 1023-32.

Levey, Helen and David Meltzer (2008). "The impact of health insurance on health," *Annual Review of Public Health*, 29: 399-409.

2/23/12 ** Midterm Exam 1 (1/12/12 through 2/16/12 material) **

3/1/12 Models of physician behavior – physicians as monopolists

*FGS, Chapter 15

*Kessel, Reuben A. (1958). "Price discrimination in medicine," *Journal of Law and Economics*, 1(1): 20-53.

Pauly, Mark V. and Mark A. Satterthwaite (1981). "The pricing of primary care physicians' services: a test of the role of consumer information," *Bell Journal of Economics*, 12(2): 488-506.

Dionne, Georges and Andre-Pierre Constandriopoulos (1985). "Doctors and their workshops: a review article," *Journal of Health Economics*, 4(1): 21-33.

* Indicates required reading.

<u>Date</u>	<u>Topic</u>
3/8/12	<p>Models of physician behavior – physician-induced demand</p> <p>*Labelle, Roberta, Greg Stoddart and Thomas Rice (1994). “A re-examination of the meaning and importance of supplier-induced demand,” <i>Journal of Health Economics</i>, 13(3): 347-68.</p> <p>*Pauly, Mark V. (1994). “Editorial: a re-examination of the meaning and importance of supplier-induced demand,” <i>Journal of Health Economics</i>, 13(3): 369-72.</p> <p>*Labelle, Roberta, Greg Stoddart and Thomas Rice (1994). “Editorial: response to Pauly on a re-examination of the meaning and importance of supplier-induced demand,” <i>Journal of Health Economics</i>, 13(4): 491-4.</p> <p>*Pauly, Mark V. (1994). “Reply to Roberta Labelle, Greg Stoddart and Thomas Rice,” <i>Journal of Health Economics</i>, 13(4): 495-6.</p> <p>*Phelps, Charles E. (1986). “Induced demand – can we ever know its extent?” <i>Journal of Health Economics</i>, 5(4): 355-65.</p> <p>Dranove, David and Paul Wehner (1994): “Physician-induced demand for childbirths,” <i>Journal of Health Economics</i>, 13(1): 61-73.</p> <p>Cromwell, Jerry and Janet B. Mitchell (1986). “Physician-induced demand for surgery,” <i>Journal of Health Economics</i>, 5(4): 293-313.</p> <p>Fuchs, Victor R. (1986). “Physician-induced demand: a parable,” <i>Journal of Health Economics</i>, 5(5): 367.</p>

* Indicates required reading.

Date

Topic

Overview of hospital services

*FGS, Chapters 14

*Temin, Peter (1988). "An economic history of American hospitals," in: H.E. Frech III, ed., *Health Care in America: The Political Economy of Hospitals and Health Insurance*, (San Francisco, CA: Pacific Research Institute for Public Policy), 75-102.

*Harris, Jeffrey E. (1977). "The internal organization of hospitals: some economic implications," *Bell Journal of Economics*, 8(2): 467-82.

Models of hospital behavior

*FGS, Chapter 13

*Newhouse, Joseph P. (1970). "Toward a theory of nonprofit institutions: an economic model of a hospital," *American Economic Review*, 60(1): 64-74.

*Clark, Robert Charles (1980). "Does the nonprofit firm fit the hospital industry," *Harvard Law Review*, 93(7): 1416-89.

*Frank, Richard G. and David S. Salkever (1994). "Nonprofit organizations in the health sector," *Journal of Economic Perspectives*, 4(4): 129-44.

Dranove, David (1988). "Pricing by non-profit institutions: the case of hospital cost shifting," *Journal of Health Economics*, 7(1): 47-57.

Pauly, Mark V. and Michael Redisch (1973). "The not-for-profit hospital as a physicians' cooperative," *American Economic Review*, 63(1): 87-99.

Hoerger, Thomas J. (1991). "Profit' variability in for-profit and not-for-profit hospitals," *Journal of Health Economics*, 10(3): 259-89.

* Indicates required reading.

Date

Topic

Clarkson, Kenneth W. (1972). "Some implications of property rights in hospital management," *Journal of Law and Economics*, 15(2): 363-84.

3/15/12

Efficiency of for-profit vs. non-profit hospitals

*Becker, Edmund R. and Frank A. Sloan (1985). "Hospital ownership and performance," *Economic Inquiry*, 23(1): 21-36.

Kessler, D. P. and M. B. McClellan (2002). "The effects of hospital ownership on medical productivity," *RAND Journal of Health Economics*, 33(3): 488-506.

Grannemann, Thomas W., Randall S. Brown and Mark V. Pauly (1986). "Estimating hospital costs: a multiple output analysis," *Journal of Health Economics*, 7(4): 107-28.

Delivery systems and payment – the rise of HMOs

*FGS, Chapter 12

*Cutler, David M., Mark McClellan and Joseph P. Newhouse (2000). "How does managed care do it?" *RAND Journal of Economics*, 31(3): 526-48.

*Wu, Vivian Y. (2009). "Managed care's price bargaining with hospitals," *Journal of Health Economics*, 28(2): 350-60.

Langwell, Kathryn M. (1990). "Structure and performance of health maintenance organizations: a review," *Health Care Financing Review*, 12(1): 71-9.

Berenson, Robert A., Paul B. Ginsburg and Nichole Kemper (2010). "Unchecked provider clout in California foreshadows challenges to health reform," *Health Affairs*, 29(4): 1-7.

Dudley, Adams R. (2001). "Managed care in transition," *New England Journal of Medicine*, 344(14): 1087-92.

* Indicates required reading.

Date Topic

Dafny, Leemore (2010). “Are health insurance markets competitive?” *American Economic Review*, 100(4): 1399-1431.

The impact of HMOs on prices and utilization

*Polsky, Daniel and Sean Nicholson (2004). “Why are managed care plans less expensive: risk selection, utilization or reimbursement?” *Journal of Risk and Insurance*, 71(1): 21-40.

*Morgan, Robert O., Beth A. Virnig, Carolee A. DeVito and Nancy Persily (1997). “The Medicare-HMO revolving door – the healthy go in and the sick go out,” *New England Journal of Medicine*, 337(3) 169-75.

Miller, Robert H. and Harold S. Luft (2002). “HMO plan performance update: an analysis of the literature, 1997-2001,” *Health Affairs*, 21(4): 63-86.

Newhouse, Joseph P., William B. Schwartz, Albert P. Williams and Christina Witsberger (1985). “Are fee-for-service costs increasing faster than HMO costs?” *Medical Care*, 23(8): 960-6.

Baker, Laurence C. (1997). “The effect of HMOs on fee-for-service health care expenditures: evidence from Medicare,” *Journal of Health Economics*, 16(4): 453-81.

Town, Robert and Gregory Vistnes (2001). “Hospital competition in HMO networks,” *Journal of Health Economics*, 20(5): 733-53.

Brooks, John M., Avi Dor and Herbert S. Wong (1997). “Hospital-insurer bargaining: an empirical investigation of appendectomy pricing,” *Journal of Health Economics*, 16(4): 417-34.

Bebinger, M. (2009) “Mission not yet accomplished? Massachusetts contemplates major moves on cost containment,” *Health Affairs*, 28(5): 1373-81.

Phelps, Chapter 11.

* Indicates required reading.

Date Topic

3/22/12 ** Draft papers due in hard copy **

Medicare

*FGS, Chapter 21

*Lichtenberg and Sun (2007). “The impact of Medicare Part D on prescription drug use by the elderly,” *Health Affairs*, 26(6): 1735-44.

Moon, Marilyn (2001). “Medicare,” *New England Journal of Medicine*, 344(12): 928-31.

Neumann, Peter J. and Sean R. Tunis (2010). “Medicare and medical technology – the growing demand for relevant outcomes,” *New England Journal of Medicine*, 362(5): 377-9.

Zwanzinger, Jack and Anil Bamezai (2006). “Evidence of cost shifting in California hospitals,” *Health Affairs*, 25(1): 197-203.

Delivery systems and payment – diagnostic related groups (DRGs)

*Dafny, Leemore S. (2005). “How do hospitals respond to price changes?” *American Economic Review*, 95(5): 1525-47.

Friedman, Bernard and Stephen Shortell (1988). “The financial performance of selected investor-owned and not-for-profit system hospitals before and after Medicare prospective payment,” *Health Services Research*, 23(2): 237-67.

Fisher, Charles R. (1992). “Hospital and Medicare financial performance under PPS, 1985-90,” *Health Care Financing Review*, 14(1): 171-83.

Hsiao, William C. and Daniel L. Dunn (1987). “The impact of DRG payment on New Jersey hospitals,” *Inquiry*, 24(Fall): 212-20.

* Indicates required reading.

Date Topic

Riley, Gerald F., Jesse M. Levy and Melissa A. Montgomery (2009). "Adverse selection in the Medicare Prescription Drug Program," *Health Affairs*, 28(6): 1826-37.

Wilensky, Gail R. (2009). "Reforming Medicare's physician payment system," *New England Journal of Medicine*, 360(7): 653-5.

The Uninsured

*Hadley, Jack, John Holahan, Teresa Coughlin and Dawn Miller (2008). "Covering the uninsured in 2008: current costs, sources of payment, and incremental costs," *Health Affairs*, 27(5): w399-415.

Hadley, Jack, Earl P. Steinberg and Judith Feder (1991). "Comparison of uninsured and privately insured hospital patients," *Journal of the American Medical Association*, 265(3): 374-9.

Wilper, Andrew P., Steffle Woolhandler, Karen E. Lasser, Danny McCormick, David H. Bor and David U. Himmelstein (2008). "A national study of chronic disease prevalence and access to care in uninsured U.S. adults," *Annals of Internal Medicine*, 149(3): 170-6.

Thorpe, K.E. (2004). "Protecting the uninsured," *New England Journal of Medicine*, 351(15): 1479-1481.

3/29/12 Spring Break – no lecture

4/5/12 Employer-Sponsored Insurance

*Blumenthal, David (2006). "Employer-sponsored insurance in the United States - origins and implications," *New England Journal of Medicine*, 355(1): 82-8.

* Indicates required reading.

Date Topic

*Blumenthal, David (2006). "Employer-sponsored insurance - riding the health care tiger," *New England Journal of Medicine*, 355(2): 195-202.

*Claxton, Gary, Bianca DiJulio, Heidi Whitmore, Jeremy D. Pickreign, Megan McHugh, Awo Osei-Anto and Benjamin Finder (2010). "Health benefits in 2010: premiums rise modestly, workers pay more toward coverage," *Health Affairs*, 29(10): 1942-50.

Bebinger, M. (2009) "Mission not yet accomplished? Massachusetts contemplates major moves on cost containment," *Health Affairs*, 28(5): 1373-81.

Hawaii's Prepaid Healthcare Act of 1974

*Neubauer, Deane (1993). "State model: Hawaii. A pioneer in health system reform," *Health Affairs*, 12(2): 31-9.

*Dick, Andrew W. (1994). State report. Will employer mandates really work? Another look at Hawaii, *Health Affairs*, 13(1): 343-9.

*Buchmeuller, Thomas C., John E. DiNardo and Robert G. Valletta (2011). "The effect of an employer health insurance mandate on health insurance coverage and the demand for labor: evidence from Hawaii," *American Economic Journal: Economic Policy*, 3(4): 25-51.

The Affordable Care Act

*Oberlander, Jonathan (2010). "Long time coming: why health reform finally passed," *Health Affairs*, 29(6): 1112-6.

*Blumberg, Linda J. and John Holahan (2009). "The individual mandate - an affordable and fair approach to achieving universal coverage," *New England Journal of Medicine*, 361(1): 6-7.

* Indicates required reading.

<u>Date</u>	<u>Topic</u>
	<p>*Koh, Howard K. and Kathleen G. Sebelius (2010). "Promoting prevention through the Affordable Care Act," <i>New England Journal of Medicine</i>, 363(14): 1296-9.</p> <p>*Eibner, Christine, Peter S. Hussey and Federico Girosi (2010). "The effects of the Affordable Care Act on Workers' Health Insurance Coverage," <i>New England Journal of Medicine</i>, 363(15): 1393-5.</p> <p>*Chirba-Martin, Mary Ann (2010). "ERISA preemption of state play or pay mandates: how PPACA clouds an already confusing picture," <i>Journal of Health Care Law & Policy</i>, 13: 393-421.</p>
4/12/12	** Midterm Exam 2 (3/1/12 through 4/5/12 material) **
4/19/12	** Student presentations – Day 1 **
4/26/12	** Final research papers due in hard copy **
	** Student presentations – Day 2 **