

**University of Wisconsin
Department of Economics
Economics 548: The Economics of Health Care
Fall 2005
Korinna K. Hansen**

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COURSE DESCRIPTION

This is a course in applied microeconomics. It is designed for students who already understand basic consumer and producer theory, and focuses on how health care markets differ from other markets. Because of asymmetric information, uncertainty, government involvement, and externalities, the economics of the health care sector and its players (patients, providers, insurers, employers, and government) requires a special analysis. We will learn how to apply microeconomic tools to study the medical care system and analyze the economic aspects of health care policy implications.

Prerequisite: Economics 301 or Public Affairs 880.

COURSE REQUIREMENTS

1. Problem Sets (10% of grade).
2. Midterm Examination (20% of grade).
In class, **October 14th**.
3. Term paper (20% of grade).
Due date: **December 14th, 11:00 a.m.**
4. Class Presentation (10% of grade).
5. Class Participation (10% of grade).
6. Final Examination (30% of grade).
Covers all material

Required Textbook and Readings:

Charles E. Phelps, *Health Economics*, Addison-Wesley, third edition, 2003. (Hereafter Phelps). C.E. Phelps, *Health Economics* is the main textbook for the course. You can find copies of this book at the bookstore. **All supplemental readings are on reserve at the College Library (Helen C. White Hall). All are also on electronic reserves for our class.**

This is an economics course. You cannot do well in this class unless you **thoroughly understand the economic models and graphs** we cover in class. You will often find your old microeconomics notes and book helpful. Keep them handy for general reference on economic tools and arguments we will use.

The course outline that follows gives the chapters and articles that correspond to the lectures. Optional readings are truly optional. You are expected to come to class prepared and participate. Try to at least skim the relevant material before class and study it well afterwards. In the past, students have found it beneficial to summarize some of the readings and material we cover for an easier review when preparing for exams.

This course is generally offered as a 3-credit course. An exception can be made this semester for students who need and would like to take this course as a 4-credit course. Those students will have to complete additional readings (not covered in class) and will have to answer additional questions in both exams for the extra credit. 4-credit students also need to identify themselves to me in the first week of classes. 4-credit students will be responsible for the optional readings on the syllabus.

There is a class presentation and paper requirement for this course. Some of the topics in the course outline (marked with **) will be presented by students, in-groups of four or five. After receiving your topic assignment you will need to read the relevant material from the course outline, discuss it in your group, and prepare to present it to the class. All students of every group will have to present for about 10 minutes each. You are also expected to do a thorough library search on the same topic, and carefully present a critical review of the relevant literature in a group paper. The class presentation can mostly rely on the articles on the syllabus (with the exception of the International Health topic). The joint 20-30-page paper should be a lot more detailed and should rely on a large number of good sources. I will guide you with your literature search, and organization of ideas. I will help you prepare for your presentation and read first drafts of the paper. The whole experience should be educational and enjoyable.

Quality class participation is also very important for this class. You should always feel free to ask questions and express your opinion. I reserve the right to sometimes answer questions after class.

The problem sets have been constructed carefully and will serve as an excellent practice for the exams. You are strongly encouraged to work together with classmates when solving problem set questions, but complete and turn in **your own**. Students who are regular members of study groups have done significantly better and also have enjoyed the process more. No late problem sets will be accepted.

COURSE OUTLINE

INTRODUCTION TO ECONOMICS & THE HEALTH CARE SYSTEM (Sept. 2, 7, 9).

Phelps, Chapters 1 & 2.

Anderson, Gerald F. et al., 1999, "Health Spending, Access, And Outcomes: Trends In Industrialized Countries", *Health Affairs*, Vol. 18, No. 3, pp. 178-192.

Anderson, Gerald F. et al., 2001, "Comparing Health System Performance In OECD Countries", *Health Affairs*, Vol. 20, No. 3, pp. 219-232.

Levit, Katharine, 2002, "Inflation Spurs Health Spending In 2000", *Health Affairs*, Vol. 21, No. 1, pp. 172-181.

Optional:

Thorpe, Kenneth, E., 2004, "Protecting the Uninsured", *The New England Journal of Medicine*, Vol. 351, No. 15, pp. 1479-1481.

Epstein, Arnold M., 2004, "Health Care in America – Still Too Separate, Not Yet Equal", *New England Journal of Medicine*, Vol. 351, No. 6, pp. 603-05.

THE TRANSFORMATION OF MEDICAL CARE TO HEALTH (Sept. 12, 14).

Phelps, Chapter 3.

PATIENT DEMAND FOR MEDICAL CARE - MORAL HAZARD (Sept. 16, 19, 21, 26).

Phelps, Chapters 4 & 5 (except pp. 155-170).

LIBRARY SESSION IN MEMORIAL LIBRARY ROOM 362. (September 23).

PROVIDER SUPPLY OF MEDICAL CARE

1. PHYSICIANS (Sept. 28, 30, Oct. 3).

Phelps, Chapters 6 & 7.

Rivo, Marc L. et al., 1996, "A Report Card On The Physician Work Force In The United States", *The New England Journal of Medicine*, Vol. 334, No. 14, pp. 892-896.

2. HOSPITALS (Oct. 5, 7, 10).

Phelps, Chapters 8 & 9 (except pp. 301-311).

Optional:

Radach Spang, Heather et al., 2001, "Hospital Mergers And Savings For Consumers: Exploring New Evidence", *Health Affairs*, Vol. 20, No. 4, pp. 150-158.

CASE STUDY: (Oct. 12) "Medicine and the Profit Motive: The Proposed Sale of McLean Hospital"

Optional:

Blumenthal, David et al., 2000, "Selling Teaching Hospitals To Investor-Owned Hospital Chains: Three Case Studies", *Health Affairs*, Vol. 19, No. 2, pp. 158-166.

MIDTERM EXAMINATION ----- October 14.

HEALTH INSURANCE

1. DEMAND AND SUPPLY OF HEALTH INSURANCE (Oct. 17, 19, 21, 24).

Phelps, Chapter 10.

Schroeder, Steven A., 2001, "Prospects For Expanding Health Insurance Coverage", *The New England Journal of Medicine*, Vol. 334, No. 11, pp. 847-852.

Holahan, John et al., 2002, "Changes In Insurance Coverage: 1994-2000 And Beyond", *Health Affairs* Web exclusive in:

www.healthaffairs.org/WebExclusives/2103Holahan.pdf

2. MANAGED CARE (Oct. 26).

Phelps, Chapter 11.

Dudley, Adams R., 2001, "Managed Care In Transition", *The New England Journal of Medicine*, Vol. 344, No. 14, pp. 1087-1092.

Optional:

Glied, Sherry, 2000 "Managed Care", Chapter 13 in: *Handbook of Health Economics*, (A.J. Culyer and J.P. Newhouse editors).

Miller, Robert H. et al., 2002, "HMO Plan Performance Update: An Analysis Of The Literature, 1997-2001", *Health Affairs*, Vol. 21, No. 4. pp. 63-86.

CASE STUDY: (Oct. 28) "Tufts Health Plan"

3. EMPLOYER SPONSORED HEALTH INSURANCE (Oct. 31)

Kuttner, Robert, 1999, "Employer-Sponsored Health Coverage", *The New England*

Journal of Medicine, Vol. 340, No. 3, pp. 248-252.

David M. Cutler, 2003, "Employee Costs and the Decline in Health Insurance Coverage", in *Frontiers in Health Policy Research*, edited by David M. Cutler and Alan M. Garber, pp. 27-53.

Optional:

O'Brien, Ellen, 2003, "Employers' Benefits from Workers' Health Insurance", *The Milbank Quarterly*, Vol. 81, No. 1, pp. 5-43.

CASE STUDY: (Nov. 2) "Managing Health Care at Ford Motor Company"

****NURSES AND THE NURSING MARKET (Nov. 4)**

Phelps, Chapter 9, pp. 301-311.

Aiken, Linda H., 2003, "Educational Levels of Hospital Nurses and Surgical Patient Mortality", *The Journal of the American Medical Association*, Vol. 290, No. 12, pp. 1617-1623.

Optional:

Hansen, Korinna K., 1991, "Testing Monopsony in the U.S. Nursing Market", Wellesley College Working Paper.

****GOVERNMENT HEALTH CARE PROGRAMS: MEDICARE (Nov. 7).**

Phelps, Chapter 12.

Moon, Marilyn, 2001, "Medicare", *The New England Journal of Medicine*, Vol. 344, No. 12, pp. 928-931.

Optional:

Iglehart, John K., 2004, "The New Medicare Prescription-Drug Benefit – A Pure Power Play", *The New England Journal of Medicine*, Vol. 350, No. 8, pp. 826-833.

****GOVERNMENT HEALTH CARE PROGRAMS: MEDICAID (Nov. 9).**

Phelps, 2003, "Other Government Health Care Programs", Online Chapter 13, in "http://wps.aw.com/aw_phelps_health_econ_3" and also on reserve at the College Library.

Rosenbaum, Sara, 2002, "Medicaid", *The New England Journal of Medicine*, Vol. 346, No. 8, pp. 635-640.

Optional:

Iglehart, John K., 2003, "The Dilemma of Medicaid", *The New England Journal of Medicine*, Vol. 348, No. 21 pp. 2140-2148.

CASE STUDY: (Nov. 11) "Matters of Life and Death: Defunding Organ Transplant in the State of Arizona"

Optional:

McCall, Nelda, 1997, "Lessons From Arizona's Medicaid Managed Care Program", *Health Affairs*, Vol. 16, No. 4, pp.194-199.

MEDICAL MALPRACTICE (Nov. 14, 16).

Phelps, Chapter 13.

Optional:

Studdert, David M., et al., 2004, "Medical Malpractice", *The New England Journal of*

Medicine, Vol. 350, No. 3, pp. 283-292.

Studdert, David M., et al., 2005, "Defensive Medicine Among High-Risk Specialist Physicians in a Volatile Malpractice Environment", *The Journal of the American Medical Association*, Vol. 293, No. 21, pp. 2609-2617.

Mohr, James C., 2000, "American Medical Malpractice Litigation In Historical Perspective", *The Journal of the American Medical Association*, Vol. 283, No. 13, pp. 1731-1737,

****EXTERNALITIES IN HEALTH AND MEDICAL CARE (Nov. 18, 21, 23, **28, 30).**

Phelps, Chapter 14.

Manning, Willard, et al., 1989, "The Taxes Of Sin", *The Journal of the American Medical Association*, pp. 1604-1609.

Ziv, Tal Ann & Lo, Bernard, 1995, " Denial Of Care To Illegal Immigrants: Proposition 187 in California", *The New England Journal of Medicine*, Vol. 332, No. 16, pp. 1095-1098.

Optional:

Ku, Leighton et al., 2001, "Left Out: Immigrants' Access To Health Care And Insurance", *Health Affairs*, Vol. 20, No. 1, pp. 247-256.

****GOVERNMENT REGULATION (Dec. 2)**

Phelps, Chapter 15, up to page 521.

****FDA - PHARMACEUTICALS (Dec. 5)**

Phelps, Chapter 15 (only pp. 521 – end of chapter)

Scherer, F.M., 2004, "The Pharmaceutical Industry – Prices and Progress", *The New England Journal of Medicine*, Vol. 351, No. 9, pp. 927-932.

Optional:

Scherer, F. M., 2000, "The Pharmaceutical Industry", Chapter 25 in: *Handbook of Health Economics*, (A.J. Culyer and J.P. Newhouse editors).

Frank, Richard, G., 2004, "Prescription – Drug Prices", *The New England Journal of Medicine*, Vol. 351, No. 14, pp. 1375-1377.

****MEDICAL TECHNOLOGY (Dec. 7)**

Newhouse, Joseph P., 1992, "Medical Care Costs: How Much Welfare Loss?", *The Journal of Economic Perspectives*, Vol. 6, No. 3, pp. 3-22.

Optional:

Cutler, David M. et al., 2001, "Is Technological Change In Medicine Worth It?", *Health Affairs*, Vol. 20, No. 5, pp. 11-29.

****HEALTH CARE AND THE FUTURE (Dec. 9)**

Budetti, Peter, P., 2004, "10 Years Beyond the Health Security Act Failure", *The Journal of the American Medical Association*, Vol. 292, No. 16, pp. 2000-2006.

****INTERNATIONAL HEALTH (Dec. 12, 14)**

Phelps, Chapter 16.

