

Public Affairs 864 –Health Policy and Policy Design

University of Wisconsin-Madison
Spring 2008

Professor: Thomas DeLeire
Office Phone: (608) 262-4531
e-mail: deleire@wisc.edu
class website: learnuw@wisc.edu
Meeting Times: Tuesdays 1:20pm-3:15pm
Meeting Place: Educ Sci 218
Office: 209 Observatory Hill Office Building
Office Hours: Tuesday 10:00am – 11:50am, or by appointment

Course Summary

This course is an introduction to the field of health policy with an emphasis on the economics of health care. Health is an active field in policy analysis and health policy is growing in its importance at both the national and state levels. In the past decade, some of the most controversial policies considered by state and federal governments have involved issues that have been analyzed by health policy analysts. This class will provide an introduction to the health care system in the U.S. We will discuss some of the key concepts that health policy analysts use to study health care markets. Finally, we will apply these concepts to a number of current issues in health policy.

Prerequisites

There are no formal prerequisites for PA 864.

However, students should have a firm grasp of microeconomics (at the level of PA 880 - Microeconomic Policy Analysis or an equivalent course). Students who have never taken a course in microeconomics are discouraged from taking this class, but may do so with the permission of the instructor. Students will also benefit from being comfortable with basic concepts in statistics. Much of the literature in health policy and economics requires that readers be conversant in the language of statistics and microeconomics, so we will review these concepts as necessary.

Grading

The grade will be based on an in-class midterm (40%) and a final (50%). In addition, there will be four problem sets that will count toward the final grade (10%). Problem sets will be due *at the beginning* of class on the day they are due. Students may work in groups or individually on the problem sets, though each student in a group is required to turn in their own copy. Students who turn in a completed problem set on time will receive full credit for it. Performance on the examinations will no doubt be affected by the students' understanding of the material on the problem sets.

The material covered on the examinations will come from the lecture notes, problem sets and required reading. If a student requests that some question on an examination be re-graded, the professor will review the entire examination. There will be no make-up midterm or final, so please plan ahead.

Reading Assignments

The text for the course is The Economics of Health and Health Care, 5th Edition by Folland, Goodman, and Stano (FGS). (Students are welcome to use earlier editions of the textbook) All other readings will be available at the class website.

INTRODUCTION1 Jan 22 **How economists think about health care****Required readings:**

- FGS, Ch. 1
- Weisbrod (1991) "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment" *Journal of Economic Literature* 29(2): 523-552
- Fuchs (1996) "Economics, Values, and Health Care Reform," *American Economic Review* 86(1):1-24
- Arrow (1963) "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53(5): 941-973

Recommended readings:

- Iglehart (1999) "The American Health Care System: Expenditures," *New England Journal of Medicine*, 340(1):70-76.
- FGS, Ch.2 (highly recommended if your recollection of intermediate microeconomics is rusty).

THE PRODUCTION OF HEALTH2 Jan 29 **The demand for health care / Human capital and health**

Problem
Set #1
handed
out

Required readings:

- FGS, Ch. 4-5, 8 (4th edition) or Ch. 5-6, 9 (5th edition)
- FGS, Ch. 6 (4th edition) or Ch. 7 (5th edition)
- Smith (1999) "Healthy Bodies and Thick Wallets: The Dual Relationship between Health and Economic Status," *Journal of Economic Perspectives*, 13(2): 145-166.
- Grossman (1972) "On the Concept of Health Capital and the Demand for Health," *Journal of Political Economy*, 80(2): 223-255.

Recommended readings:

- Manning et al. (1987) "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, 77(3): 251-277.
- Case, Lubotsky, and Paxson (2003) "Economic Status and Health in Childhood: The Origins of the Gradient." *American Economic Review* 92(5): 1308-1334.
- Deaton (2001) "Health, Inequality, and Economic Development" *National Bureau of Economic Research Working Paper* #8318
- Case and Deaton (2003) "Broken Down by Work and Sex: How our Health Declines" *NBER Working Paper* #9821

3 Feb 5 **Technological change and the price of health care****Required readings:**

- FGS, Ch. 16 (4th edition); Ch. 17 (5th edition)
- Newhouse (1992) "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives* 6(3): 3-21.
- Cutler and McClellan (2001) "Is Technological Change in Medicine Worth It?" *Health Affairs*, 20(5):11-29.
- Cutler *et al.* (1996) "Are Medical Prices Declining? Evidence from Heart Attack Treatments," *Quarterly Journal of Economics* 113:991-1024.

Recommended readings:

- Kingsley Davis (1956) "The Amazing Decline of Mortality in Underdeveloped Areas," *American Economic Review*, 46(2): 305-318.
- Mokyr (1993) "Technological Progress and the Decline of European Mortality" *American Economic Review* 83(2):324-330.

4 Feb 12 **Hospitals and Physicians**

Problem
Set #1
due

Required readings:

- FGS, Ch. 13-14 (4th and 5th edition)
- FGS, Ch. 15 (4th edition); Ch. 16 (5th edition)

Recommended readings:

- Kessler and McClellan (2001) "The Effects of Hospital Ownership on Medical Productivity" *NBER Working Paper* #8357
- Lakdawalla and Philipson (1998) "Non-Profit Production and Competition" *NBER Working Paper* #6377
- Malani and Choi (2004) "Are Non-Profit Firms Simply For-Profits in Disguise? Evidence from Executive Compensation in the Nursing Home Industry" *mimeo, Univ. of Virginia Working Paper*
- Kessler and McClellan (1996) "Do Doctors Practice Defensive Medicine?" *Quarterly Journal of Economics*, 111(2):353-390
- McClellan and Kessler (2000) "Medical Liability, Managed Care, and Defensive Medicine," *National Bureau of Economic Research Working Paper* #7537
- Bhattacharya (2005) "Specialty Selection and Lifetime Returns to Specialization within Medicine" *Journal of Human Resources* 40(1):115-43.

HEALTH INSURANCE

- 5 Feb 19 **The demand for health insurance**
- Problem Set #2 handed out
- Required readings:**
- FGS, Ch.11 (4th and 5th edition)
 - Cutler and Zeckhauser (1999) “The Anatomy of Health Insurance” *NBER Working Paper* #7176
- 6 Feb 26 **Informational asymmetries and classification risk**
- Required readings:**
- FGS, Ch. 9 (4th edition); Ch. 10 (5th edition)
 - Akerlof (1970) “The Market for “Lemons”: Quality Uncertainty and the Market Mechanism,” *Quarterly Journal of Economics*, 84(3):488-500.
 - Rothschild and Stiglitz (1976) “Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information,” *Quarterly Journal of Economics*,90(4):629-649.
 - Cochrane (1995) “Time-Consistent Health Insurance,” *Journal of Political Economy*, 103(3):445-473.
- Recommended readings:**
- Crocker and Moran (2002) “Contracting with Limited Commitment: Evidence from Employment - Based Health Insurance Contracts,” *mimeo*, University of Michigan Business School
 - Gaynor, Haas-Wilson, and Vogt (2000) “Are Invisible Hands Good Hands? Moral Hazard, Competition, and the Second-Best in Health Care Markets” *Journal of Political Economy* 108(5):992-1005
- 7 Mar 4 **Employer provision of health insurance**
- Problem Set #2 due
- Required readings:**
- FGS, Ch. 7 (4th edition); Ch. 8 (5th edition)
 - Gruber (1994) “The Incidence of Mandated Maternity Benefits,” *American Economics Review* 84(3):622-41.
- Recommended readings:**
- Bundorf (2002) “Employee Demand for Health Insurance and Employer Health Plan Choices,” *Journal of Health Economics*, 21(1):65-88
 - Abraham, Vogt, and Gaynor (2002) “Household Demand for Employer-Based Health Insurance,” *National Bureau of Economic Research Working Paper* #9144
 - Feldman et al. (1989) “The Demand for Employment Based Health Insurance Plans,” *Journal of Human Resources*, 24(1):115-142.
- 8 Mar 11 **Midterm Exam (Covers all readings and materials presented in weeks 1-7)**
- 9 Mar 18 **No Class—SPRING BREAK**

10 Mar 25 **Empirical Examinations of Insurance Markets / Managed Care**

Problem set #3 handed out

Required readings:

- Cawley and Philipson (1999) "An Empirical Examination of Information Barriers to Trade in Insurance," *American Economic Review*, 89(4):827-846
- FGS, Ch.12 (4th and 5th edition)
- Robinson (2001) "The End of Managed Care" *JAMA*. 285:2622-2628
- Enthoven, Schauffler, McMenamin (2001) "Consumer choice and the managed care backlash." *Am J Law Med*.27(1):1-15

Recommended readings:

- Finkelstein and McGarry (2003) "Private Information and Its Effect on Market Equilibrium: New Evidence from Long-Term Care Insurance," *NBER Working Paper #9957*
- Bhattacharya J, Goldman D, and Sood N, "Price Regulation in Secondary Insurance Markets" forthcoming in *Journal of Risk and Insurance* (2004)
- Jacobson and Pomfret "ERISA Litigation and Physician Autonomy", *JAMA*. 283:921-926
- Studdert, Bhattacharya, Schoenbaum, Warren, and Escarce (2002). "Personal Choices Of Health Plans By Managed Care Experts," *Medical Care* 40(5): 375-386
- Iglehart JK. (2002) "Changing health insurance trends." *N Engl J Med* 347(12):956-62

11 Apr 1 **Medicare, Medicaid, and S-CHIP****Required readings:**

- FGS, Ch.20 (4th edition); Ch. 21 (5th edition)
- Iglehart (1999) "The American Health Care System: Medicaid," *New England Journal of Medicine* 340(5): 403-8
- Iglehart (1999) "The American Health Care System: Medicare," *New England Journal of Medicine*, 340(4): 327-332.

Recommended readings:

- Yelowitz (1995) "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions" *Quarterly Journal of Economics*, 110(4):909-939.
- Iglehart JK. (2003) "The Dilemma of Medicaid" *N Engl J Med* 348(21):2140-8.

12 Apr 8 **Uninsurance: causes and consequences**

Problem
Set #3
due

Required readings:

- Farber and Levy (2000). "Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse?" *Journal of Health Economics* 19(1):93-119.
- Congressional Budget Office (2003) How Many People Lack Health Insurance and For How Long? CBO: Washington, D.C.

Recommended readings:

- Levy and Meltzer (2001) "What Do We Really Know About Whether Health Insurance Affects Health?" in *Health Policy on the Uninsured: Setting the Agenda*, Catherine McLaughlin (ed.), Urban Institute Press.
- Levy and Deleire (2002) "What do People Buy When They Don't Buy Health Insurance?" *Working Paper*, Harris School, University of Chicago.
- Glied and Stabile, (2000) "Explaining the Decline in Health Insurance Coverage among Young Men," *Inquiry* 37:295-303
- Gruber and Washington (2003) "Subsidies to Employee Health Insurance Premiums and the Health Insurance Market." *National Bureau of Economic Research Working Paper* #9567

TOPICS IN HEALTH ECONOMICS13 Apr 15 **The regulation of health insurance and of care markets**

Problem
Set #4
handed
out

Required readings:

- FGS, Ch.17, 18, 19 (4th edition); Ch. 18, 19, 20 (5th edition)
- Small group regulations etc.

Recommended readings:

- Cutler (2002) "Health Care and the Public Sector" *NBER Working Paper* #8802
- Peltzman (1975) "The Effects of Automobile Safety Regulation" *Journal of Political Economy* 83(4):677-726.
- Peltzman (1973) "An Evaluation of Consumer Protection Legislation" *Journal of Political Economy* 81(5):1049-1091.

14 Apr 22 **Economic epidemiology**

Problem
set #4
due

Required readings:

- FGS, Ch. 23 (4th edition); Ch. 24 (5th edition)
- Philipson, (1996) "Private Vaccination and Public Health: An Empirical Examination for U.S. Measles," *Journal of Human Resources*, 31(3): 611-630.
- Philipson (1999) "Economic Epidemiology and Infectious Diseases," *NBER Working Paper* #7037.
- Goldman, Lakdawalla, and Sood (2004) "HIV Breakthroughs and Risky Sexual Behavior," *NBER Working Paper* #10516

Recommended readings:

- Ahituv et al. (1996) “The Responsiveness of the Demand for Condoms to the Local Prevalence of AIDS,” *Journal of Human Resources*, 31(4):869-897.
- Philipson and Posner (1995) “A Theoretical and Empirical Investigation of The Effects of Public Health Subsidies for STD Testing,” *Quarterly Journal of Economics*, 110(2):445-474.
- Geoffard and Philipson (1996) “Rational Epidemics and Their Public Control,” *International Economic Review*, 37(3):603-624.
- Geoffard and Philipson (1997) “Disease Eradication: Private versus Public Vaccination,” *American Economic Review*, 87(1): 222-230.
- Dow et al. (1995) “Disease Complementarities and the Evaluation of Public Health Interventions,” *NBER Working Paper #5216*.

15 Apr 29 **Obesity**

Required readings:

- Lakdawalla and Philipson (2002) “The Growth of Obesity and Technological Change: A Theoretical and Empirical Examination,” *NBER Working Paper #8946*
- Cutler, Glaeser, and Shapiro (2003) “Why Have Americans Become More Obese?” *NBER Working Paper #9446*
- Bhattacharya J and Bundorf K. “The Incidence of the Healthcare Costs of Obesity” *NBER Working Paper No. 11303 (2005)*

Recommended readings:

- Philipson and Posner (1999) “The Long Run Growth in Obesity as a Function of Technological Change,” *NBER Working Paper #7423*
- Lakdawalla, Philipson, and Bhattacharya (2005) “Welfare-Enhancing Technological Change and the Growth of Obesity” *American Economic Review* 95(2):253-7.

16 May 6 **Health Policy at the National Level**

Required readings: TBA**Recommended readings: TBA**

17 Week of
May 12 **Final Exam**