Economics 548  
Department of Economics  
Fall 2016, University of Wisconsin–Madison

Class meets Monday and Wednesdays 2:30–3:45pm Room 4308 Sewell Social Sciences Building

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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 and determinants of health. 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, determinants of health and analyze the economic aspects of health care policy. It is also a course in which you will participate in a research project that uses data on an intervention to improve the quality of health care. Your role, as part of a small group, will be to evaluate whether or not the intervention has been successful, for which patients it has been successful and/or which doctors responded to the intervention. Your report will be shared with UW-Health and an observer is expected to attend your presentation.

Prerequisite: Economics 301 or Public Affairs 880.

Course Assignments and Grading

There will be two midterm exams including one the last day of class. Each of the exams are worth 30 percent of your grade for the course. As noted above, you will be participating in a group project. Your and the group’s performance on this project will determine 30 percent of your grade. Material for this will be distributed during Week 3. This will be a research project using data from the UW. In addition, you are required to lead/co-lead a health policy discussion in class. This along with your participation in these policy discussions in general will determine 10 percent of your grade. We will call these analytical policy presentations and write-ups. A sign-up sheet will be available during the first class meeting.

Required Textbook, Readings, and Materials


In addition you might wish to purchase (less expensive as a used book)  
Additional readings for the course are listed below and will be available on Learn@UW.

Requirements Outside of Class

Take the CITI Human subjects research training and successfully complete the quiz. https://kb.wisc.edu/ gsadmin kb/page.php?id=32559. When you have completed it, send the certificate to Josephine Xu. This has to be completed before you have access to the data.

You will be getting an account at SSCC in order to access the data. You can take either version of the training: UW Biomedical or UW Social & Behavioral Course. (For those of you who plan to go on in any health related field, I suggest you do the UW Biomedical.)

Analytical Policy Presentation and Write-ups

Once during the semester you will each write a 2- to 3-page essay based on health economics
news/policy you read from a valid source. You will lead a discussion on this topic for class for 7-8 minutes. Since two members of the class will have this assignment on the same date, you can either present independently or combine presentations. If you combine, you should either take two opposing sides of a health policy issue or take on a more extended analysis. In both cases you can jointly write the first paragraph setting out the policy issue but then should independently write the rest of the write-up. You can post material to Learn@UW but I do not want you to use PowerPoint for your presentations.

The presentation should include background on the policy issue, economic analysis and at least 3 questions to pose to the class. Sources include newspapers, periodicals and online websites.

Two examples of topics, issues and questions:

“Doctors Are Improperly Billing Some on Medicare, U.S. Says

Background: The people who are being billed improperly are “qualified Medicare beneficiaries” who are also enrolled in Medicaid. They are 65 and older or disabled and have low incomes, generally less than $1,010 a month for an individual or $1,355 for a married couple.

Federal law says that such beneficiaries do not have “any legal liability to make payment” to a doctor or a hospital beyond the amounts paid by Medicare and Medicaid. The Obama administration recently told doctors that they “must accept the Medicare payment and Medicaid payment (if any) as payment in full for services rendered to a qualified Medicare beneficiary.”

Despite this requirement, a study by the Department of Health and Human Services found that improper billing still appears to be “relatively commonplace” because “some Medicare providers unlawfully bill enrollees” after receiving payments from Medicare and Medicaid. Many low-income beneficiaries are unaware of the billing restrictions or are concerned about losing access to their doctors, so they “simply pay the cost-sharing amounts,” the administration said. In other cases, it said, “unpaid bills are referred to collection agencies.”

About seven million low-income people receive financial help through the program for qualified Medicare beneficiaries. Under this program, state Medicaid agencies help pay Medicare premiums, deductibles, co-payments and coinsurance. But states do not have to pay doctors the full amount of such costs, and in some cases they pay nothing, leaving doctors with hundreds or thousands of dollars in unreimbursed expenses.

Economic Issues:

   Explain the program briefly. Be sure to state the economic justification of the program.

1. Lower payment to providers may reduce providers’ willingness to serve these patients.

2. Fear of payments may reduce patient’s likelihood of utilization of health care. Delays may lead to poorer health and higher medical costs. Payments reduce income for this low income population which may have additional negative consequences.

3. Is there evidence that if a state’s Medicaid pays providers at a higher level
   a. There is less improper billing
   b. There are fewer problems of access
   c. Health of this dual receipt population is better (or less unequal)?

Possible questions to class

How would you reduce improper billing? (Raise the penalty to providers who improperly bill? Raise the payment to providers when serving these patients? Allow direct billing up to some amount for these
patients?) Possibly ask the class to vote on a set of options. Be sure to point out the trade-offs in these options.

If the preferred option is to raise reimbursement, how would you finance this increase?

If the preferred option is to use penalties, how might you increase access for these patients? (This is a broader issue).

**New Medicare Law to Notify Patients of Loophole in Nursing Home Coverage**

The experience patients not admitted to a hospital but kept “under observation” inspired a new Medicare law — in force as of 8/1/2016—requires hospitals to notify patients that they may incur huge out-of-pocket costs if they stay more than 24 hours without being formally admitted. Because of the Notice Act, passed by Congress last year with broad bipartisan support, patients can expect to start receiving the warnings in January.

Hospitals have been keeping patients in limbo — in “observation status” — for fear of being penalized by Medicare for inappropriate admissions. While under observation, patients can be liable for substantial hospital bills, and Medicare will not pay for subsequent nursing home care unless a person has spent three consecutive days in the hospital as an inpatient.

Time spent under observation does not count toward the three days, even though the patient may spend five or six nights in a hospital bed and receive extensive hospital services, including tests, treatment and medications ordered by a doctor.

Under the new law, the notice must be provided to “each individual who receives observation services as an outpatient” at a hospital for more than 24 hours. Medicare officials estimate that hospitals will have to issue 1.4 million notices a year.

The median cost for a private room in a nursing home is roughly $92,000 a year, according to a survey by Genworth Financial, an insurance company. Medicare covers up to 100 days of skilled nursing home care at a time.

**Economic Issues**

Hospitals responded to being questioned by Medicare on certain hospital admissions. The questions were based on the idea that these patients could have been treated as out-patients at considerably less cost. Outpatient care is less expensive and could save Medicare millions of dollars. However, the consequences of this shift is to impose substantial costs of patients, unless they have additional insurance coverage.

1. Patients facing higher costs and no coverage under Medicare for Nursing home stays.

2. Nursing homes may see lower reimbursement and more uncertainty over reimbursement.

3. Medicaid rolls may increase as these patients first pay for the hospital care and then have reduced their incomes sufficiently to qualify for Medicaid.

**Possible Questions to class:**

Is providing patients with information likely to solve this problem? (Is it only an information issue?)

Would removing the 3 day inpatient stay requirement or modifying it to include “observational status” reduce the problem? If so, what are the economic consequences of doing so? For Medicare (taxpayers), patients?

If the 3-day requirement were modified, do you think there will be any changes in the use of “observational status”
Course Outline and Reading Assignments

Week 1
9/7 Course Overview

Week 2
9/12 Demand for Health and Health Care
   Bhattacharya, Chapters 1 and 2

9/14 Demand for Health and Health Care: The Grossman Model
   Bhattacharya, Chapter 3
   http://www.newyorker.com/reporting/2009/06/01/090601fa_fact_gawande?currentPage=all

Week 3
9/19 Using Stata.
   This session of the course is designed to give you background to allow you to use Stata. It is designed to give you sufficient tools to participate in the group project. (Russell Dimond, SSCC)

9/21 Disparities in Health
   Bhattacharya Chapter, 4

Week 4

9/26 Delivery of Health Care: The Labor Market for Physicians
   Bhattacharya, Chapter 5

9/28 Delivery of Health Care: The Hospital Industry Bhattacharya, Bhattacharya Chapter 6 (Emily Walden)
Week 5

10/3 Demand for Insurance Part 1: Expected Utility
  Bhattacharya, Chapter 7

10/5 Demand for Insurance Part 2: Adverse Selection
  Bhattacharya, Chapter 8, Intro, 8.1, 8.3, and 9.11

Week 6

10/10 Demand for Insurance 3: Decision-Making and Moral Hazard
  It’s Your Choice 2015: Decision Guide State of Wisconsin Group Health Insurance Program for State of Wisconsin Employees, Retired State of Wisconsin Employees (Annuitants), Members with Continuation Coverage (Continuants), UW Graduate Assistants. (Will be updated if available)
  Assignment due: Go over this and pick one plan that you prefer from all options for any one of the options (State employee, UW Graduate Assistant, etc.). Write 3–4 reasons you selected this plan. Post it in the discussion section for the course on Learn@UW.


  Moral Hazard
  Bhattacharya, Chapter 11.

10/12, Pharmaceutical Markets and Innovations (Professor David Vanness)
  Bhattacharya, Chapter 12,


Week 7

10/17 The American Model & Public Sector Program
  Bhattacharya, Chapter 18

10/19 Midterm Exam: Material up through 10/17
**Week 8**

10/24 *The Affordable Care Act: Part I.* (includes critique of system in place prior to ACA)


10/26 *The Affordable Care Act: Part II*


http://www.healthinsurance.org/blog/2013/07/18/30-economists-we-need-the-individual-mandate/


http://healthaffairs.org/healthpolicybriefs/brief_pdfs/healthpolicybrief_74.pdf

“Young, Fit, and Uninterested,” *The Economist*. (January 18, 2014).

http://www.economist.com/news/united-states/21594300-was-supposed-be-month-uninsured-got-health-insurance-not-enough


**Week 9**

10/31 *The Affordable Care Act: Part III Current Evidence of effects.*


11/2 Group meetings with progress reports due 11/7 beginning of class

**Week 10**

11/7 *Why are Costs So High? Population Aging*

Bhattacharya, Chapter 19

11/9 *Why are Costs so High? Physician Decision Making, Organizational Management, and Efficiency*


http://www.newyorker.com/reporting/2012/08/13/120813fa_fact_gawande?currentPage=all


  http://www.newyorker.com/magazine/2015/05/11/overkill-atul-gawande

Week 11

11/16 International Health Care Systems and Alternative Designs
  Bhattacharya, Chapter 15
  Commonwealth Fund, January 2016.

Week 12

11/21 International Health Care Systems and Alternative Designs, continued.
  Bhattacharya, Chapters 16–17.

11/23 Outline of reports due; time available for group meetings.

Weeks 13–14: November 28, 30; December 5 and 7: Group Presentations

Week 15 (Final Reports from Groups due 12/12 by beginning of class).


12/14 In class final midterm.
Grievance Procedure

The Department of Economics has developed a grievance procedure through which you may register comments or complaints about a course, an instructor, or a teaching assistant. Before utilizing the formal steps of this procedure, we ask that you utilize two other means of addressing your comments: our regular course evaluations, anonymous and confidential commentaries solicited at the end of each semester in every Economics class, and also by direct communication with the instructor or teaching assistant involved. The formal grievance procedure is designed for situations where neither of these channels is appropriate and where one or both of these have been tried.

If you wish to file a grievance, you should go to Room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your addresses, and a phone number where you can be reached. The Department will investigate comments fully and respond in writing to complaints. Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information because it may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. Your street and e-mail addresses are necessary for providing a written response.

Misconduct Statement

Academic integrity is critical to maintaining fair and knowledge based learning at UW Madison. Academic dishonesty is a serious violation; it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity. Examples of academic misconduct include but are not limited to: cheating on an examination (copying from another student’s paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for re-grading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student’s work, or knowingly and intentionally assisting another student in any of the above.

The Dept. of Economics will deal with these offenses harshly following UWS14 procedures (http://students.wisc.edu/saja/misconduct/UWS14.html):

1. The penalty for misconduct in most cases will be removal from the course and a failing grade.
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You could also choose to contact our administrator (Tammy Herbst-Koel: therbst@wisc.edu) and your identity will be kept confidential.