

# ECON 40565

## Health Economics

*Department of Economics and Econometrics  
University of Notre Dame*

Spring 2007  
Section 01 TuTh 11:00am – 12:15pm  
217 DeBartolo

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**Class web page:** <http://www.nd.edu/~wevans1/econ40565.html>

**Text and Readings:** The textbook for the class is Folland, Goodman and Stano, *The Economics of Health and Health Care*, fifth Edition, Prentice Hall.

Along with the text, I will assign mandatory readings of academic articles that highlight important topics in health economics. The readings are available for download in PDF format from the class web page and a reading packet should be available at Hammes sometime during the first week of class. The web page is password protected and I will provide the information via email.

**Office Hours:** Mondays, 4:00pm – 6:00pm, Tuesdays, 2:00pm – 4:00pm, Wednesdays, 10:00am – 12:00pm, and by appointment.

I am never far from email. If you have a question, please feel free to contact me at [wevans1@nd.edu](mailto:wevans1@nd.edu).

### **Course Rationale:**

Currently, health care expenditures account for 16 percent of GDP in the U.S., more than twice the value in 1970, and this number is expected to rise to approximately 20 percent by 2015. The US spends more than twice what most other industrialized countries spend on health care. Despite these expenditures, 15% of the population is without basic health insurance and the US fares poorly in international comparisons of such health indicators as life expectancy and infant mortality. Given the importance that the health care sector plays in the economy, it is only natural that our discipline considers the economic importance of this sector.

### **Course Theme:**

The course is designed to illustrate how economists analyze topics related to the production of health and the delivery of health care. In many cases, economists think very differently about topics than health care professionals and other social scientists. Economists have time and time again demonstrated the importance of incentives in decision making and throughout the semester, we will demonstrate how incentives play an important role in the structure, conduct and performance of the health care sector.

**Course Objective:**

The course is an advanced undergraduate course in economics and students are expected to have completed a course in intermediate micro economic theory. The course will focus on using the tools of intermediate micro in this particular subject area. The course will provide students with a broad overview of important topics in health care, indicate current gaps in research, and demonstrate successful research programs in the field. The bulk of the readings are empirical in nature and the course will stress how to test economic hypotheses.

**Expectations:** Students are expected to attend class, to read the reading prior to class, to NOT be late to class, to participate in classroom discussions, to hand in assignments when due, and to NOT engage in academic dishonesty.

**Evaluations:** Grades for the course will be based on problem sets (15 percent of the course grade), a mid-term exam, (30 percent of the course grade), a cumulative final (40 percent of the grade) and a paper (15 percent of the course grade).

**Problem sets:** Five problem sets will be assigned during the semester. These problem sets are designed to gauge your understanding of the concepts discussed in class. You will have one week to complete each assignment. Answers should be turned in at the beginning of class on the day they are due. I will not accept late problem sets. Collaboration and discussion are encouraged in your work but each student must hand in their own assignment. Problem sets are graded pass/fail.

**Examinations:** The mid-term examination will be held Tuesday, October 16<sup>th</sup>. The final exam for our class period is Monday, December 17<sup>th</sup>, from 10:30am til 12:30pm. Exams will be a mix of problems like those from the problem sets, and discussion-type questions.

Makeup exams will only be given for students who have a valid University excuse, applied for in writing and adequately documented. I must receive documentation within 48 hours of the missed exam. Please familiarize yourself with student responsibilities concerning missed exams, missed assignments, etc.

**Paper:** An economic analysis paper will be due Tuesday, December 11, the last day of class. A more detailed description of the assignment will be distributed later in the semester but you will be required to provide an economic analysis of any current presidential candidate's health care reform plan. As we will discuss in class, reform plan must deal with a number of key concerns about the health care sector such as costs, access, tax equity, etc. You will be asked to analyze the likely economic impact of the proposal. Will it achieve its goals? What is the likely impact on prices, uninsurance rates, government expenditures, wages, access, costs, etc? What are some unintended consequences? Detailed graphs and tables are most likely a must. Since this is an economics class, I want you to analyze the proposals through an economic lens. Grades will be a function of the clarity and grammar, completeness, and quality of your economic arguments.

Please familiarize yourself with the Undergraduate Academic Code of Honor:

<http://www.nd.edu/~hnr/code/docs/handbook.htm>.

**Supplemental Readings**  
**ECON 40565 Health Economics**  
**Fall 2007**

**I. Introduction – How do economists think about health issues?**

Folland, Goodman and Stano, Chapter 1.

Chapters 2-4 of Folland, Goodman and Stano review some economic tools that will be used throughout the semester. I will not review these chapters but you are expected to have a thorough understanding of intermediate micro theory.

**II. The production of health**

*a. The production of health – an historical perspective*

Folland, Goodman and Stano, Chapter 5.

McKeown, Thomas, *The Role of Medicine: Dream, Mirage or Nemesis*, London, England: Nuffield Provincial Hospitals Trust; 1976, pages 29-44, 91-115. ISBN-13: 978-0691082356

Fogel, Robert, *The Escape from Hunger and Premature Death, 1700-2100*, Cambridge, UK :Cambridge University Press, 2005, 1-42. ISBN-13: 9780521004886

*b. Modern correlates of health*

Deaton, Angus, "Policy Implications of the Gradient on Health and Wealth," *Health Affairs*, March/April 2002, 13-30.

Marmot, Marmot, "The Influence of Income on Health: Views of an Epidemiologist" *Health Affairs*, March/April 2002, 31-45.

Smith, J., "Healthy Bodies and Thick Wallets: The Dual Relationship Between Health and Economic Status," *Journal of Economic Perspectives*, 13(2), Spring 1999, 145-66.

Redelmeier, Donald and S.M. Singh, "Survival in Academy Award-Winning Actors and Actresses," *Archives of Internal Medicine*, May 15, 2001, 134(10), 955-965.

*c. The government control of unhealthy behavior*

Folland, Goodman and Stano, Chapter 19 and 23.

For this section, I recommend that you find your favorite intermediate micro textbook or undergraduate textbook in public finance and review the section

on externalities and taxation

Gruber, J, "Tobacco at the Crossroads: The Past and Future of Smoking Regulation in the United States" *Journal of Economic Perspectives*, 15, 2001, 193-212.

Manning, WB, EB Keeler, JP Newhouse, EM Sloss, J Wasserman. The taxes of sin. Do smokers and drinkers pay their way? *JAMA* 1989 Mar 17, 261(11):1604-1609

d. *Explaining the rise in obesity*

Cutler, David, Edward Glaeser and Jesse Shapiro, "Why Have Americans Become More Obese?" *Review of Economic Perspective*, 2003.

Schanzenbach, D.W., "Do School Lunches Contribute to Childhood Obesity," University of Chicago, Harris School Working Paper, 05.13.  
[http://harrisschool.uchicago.edu/About/publications/working-papers/pdf/wp\\_05\\_13.pdf](http://harrisschool.uchicago.edu/About/publications/working-papers/pdf/wp_05_13.pdf)

e. *AIDS*

Folland, Goodman and Stano, Chapter 24

## II. Health insurance and the demand for medical care

a. *Choices under uncertainty and the role of insurance*

Folland, Goodman and Stano, Chapter 7 and Chapter 9

For this section, I recommend that you find your favorite intermediate micro textbook and review the section on expected utility.

b. *Adverse selection*

Rothschild, Michael and Joseph Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics*, November 1976, 90(4): 629-650.

Cutler, David M., and Sarah J. Reber, "Paying for Health Insurance: The Tradeoff Between Competition and Adverse Selection," *Quarterly Journal of Economics*, 113(2), May 1998, pp. 433-466.

Simon, Kosali, "Adverse Selection in Health Insurance Markets? Evidence from State Small-Group Health Insurance Reforms," *Journal of Public Economics*, 89, 2005, 1865-1877.

c. *Moral hazard*

Folland, Goodman and Stano, Chapter 8

Folland, Goodman and Stano, Chapter 7, pages 155-160.

Newhouse, Joseph, *Free for All*, Cambridge, MA: Harvard University Press, 1993, p. 3-28, 31-49, 338-345. ISBN 13: 978-0-674-31846-5

d. *Employer-provided health insurance*

Folland, Goodman and Stano, Chapter 11

Shiels, J., Haught, R., "The Cost of Tax-Exempt Health Benefits in 2004," *Health Affairs*, Web exclusive, February 24, 2004.

Reinhardt, Uwe, "Employer-Based Health Insurance: A Balance Sheet," *Health Affairs*, 1999, 18(6), 124-132.

Summers, Lawrence, "Some Simple Economics of Mandated Benefits," *American Economic Review*, May 1989, 177-183.

### III. The Government provision of health insurance

a. *Medicare*

Folland, Goodman and Stano, Chapter 20

McClellan, M., J Skinner, "The Incidence of Medicare," *Journal of Public Economics*, 90, 2006, 257-276.

Bhattacharya, J. and D. Lakdawaalla, "Does Medicare benefit the poor?" *Journal of Public Economics*, 90, 2006, 277-292

Moon, Marilyn, "Health Policy 2001: Medicare." *New England Journal of Medicine*, 344(12), March 22, 2001, 928-931.

b. *Medicaid*

Rosenbaum, "Health Policy Report: Medicaid," *New England Journal of Medicine*, 346(8), February 21, 2002, 635-639.

Cutler, D., J. Gruber, "Does Public Insurance Crowd Out Private Insurance," *Quarterly Journal of Economics*, 111, 1996, 391-430.

#### **IV. Small area variation**

Folland, Goodman and Stano, Chapters 9 and 10

Gruber, Jonathan and Maria Owings, "Physician Incentives and Cesarean Section Delivery," *RAND Journal of Economics*, 27(1), Spring 1996, 99-123.

#### **V. Managed care**

Folland, Goodman and Stano, Chapter 12

Miller, Robert and Harold Luft, "HMO Plan Performance Update: An Analysis of the 1997 - 2001 Literature," *Health Affairs*, November/December 1999.

#### **VI. R&D, innovation and the pharmaceutical industry**

##### *a. Innovation as a cost driver in health care*

Folland, Goodman and Stano, Chapter 16

Newhouse, Joseph, "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives*, 6(3), 1992, 3-31.

Cutler, D., M. McClellan, "Is Technological Change in Medicine Worth it?" *Health Affairs*, 20(5), 2001, 11-29.

##### *b. Pharmaceutical companies*

DiMasi, J.A., R.W. Hansen, H.G. Grabowski, "The Price of Innovation: New Estimates of Drug Development Costs," *Journal of Health Economics*, 22, 2003, 151-185.

Kremer, Michael, "Pharmaceuticals and the Developing World," *Journal of Economic Perspectives*, 16(4). 2002, 67-90.

#### **VII. Medical malpractice**

Folland, Goodman and Stano, Chapter 15

Melo, M.M., et al., "The New Malpractice Crisis," *New England Journal of Medicine*, 348(23), June 5, 2003, 2281-2284.

Thorpe, K.E., "The Medical Malpractice 'Crisis': Recent Trends and the Impact of State Laws," *Health Affairs Web Exclusive*, January 21 2004.