

Economics 307
Economics of Medical Care
Winter 2020

Instructor

Frank Limbrock

KGH 3495

847 491 8678

f-limbrock@kellogg.northwestern.edu

Lectures: Tue, Thu 2:00 PM – 3:20 pm, University Hall 122

Office hours: Fri 1:30-3:00 pm or by appointment

Teaching Assistant

Honn Tai Lam

HonnLam2021@u.northwestern.edu

TA sections: Fri 11:00 am – 11:50 am and 1:00pm-1:50 pm, Searle 3220

Office hours: Wednesdays 1:00-2:30pm, KGH 3496

Course Description

This class will help students understand the key economic forces that have shaped the US health care and health insurance industry. What role do the particularities of health care and health insurance as economic goods play in explaining the size and growth rate of the health care sector? What's the effect of private incentives, adverse selection, moral hazard, and regulation? What's the effect of different organizational structures of health care provision? What can we learn from comparing the US health care / health insurance system to other countries' systems? Students will learn how a better understanding of these issues can inform the current public policy discussion.

Prerequisites

Economics 281, 310-1

Grading

Grading is based on the final exam (45 %), midterm (35 %) and class participation (20 %), which includes 5 problem sets (due dates see below).

The midterm (60 minutes) will be on February 6, during our normal meeting time. The final exam will be on Thursday, March 19 from 12:00 noon – 2:00 pm and will cover the entire class.

Should a student miss the midterm due to documented illness, the entire percentage weight of the midterm will be transferred to the final exam for that student.

The problem sets will be due **at 11:00 am** on the following dates:

- January 17
- January 31
- February 14
- February 21
- March 6

Readings and Textbook

This course will feature readings from these textbooks:

- Bhattacharya, Hyde and Tu: “Health Economics”, 2013 (“**BHT**”)
- Deaton, A, “The Great Escape: Health, Wealth and the Origins of Inequality”, 2015
- Folland, Goodman, and Stano, “The Economics of Health and Health Care”, 6th ed (2012) (“**FGS**”)
- Gruber, J, “Public Finance and Public Policy”, 4th ed (2012)
- Henderson, J, “Health Economics and Policy”, 6th ed (2014)
- Santerre and Neun, “Health Economics”, 6th ed (2012) (“**SN**”)

All the readings from the above textbooks are available under the “Course Reserves” tab on Canvas. Since the topic of health care reform is a subject of ongoing debate, I will also post supplemental articles of interest on Canvas. Other readings are available online. For some articles, such as those hosted by scholarly journals or on JSTOR, you will need to access the papers (through the clickable links below) while on campus or via using Northwestern VPN. Northwestern University covers the subscription fees to access these resources.

Academic or athletic accommodation

Any student with a verified disability requiring special accommodations should speak to me, in office hours or via email, and to the Office of Services for Students with Disabilities (847-467-5530) as early as possible in the quarter, ideally in the first week, to arrange appropriate accommodation. Students on Northwestern varsity athletic teams who anticipate an exam conflict due to an NCAA event should work with Margaret Akerstrom (m-akerstrom@northwestern.edu) in Academic Services and ask her to contact me on your behalf. All discussions with me, with the Office of Services for Students with Disabilities and with Academic Services will remain confidential.

Electronic Device Policy

Use of electronic devices in class is only permitted for the purpose of taking notes.

Course Outline

1. January 7: Introduction

- FGS, pp. 1-17; Gruber, pp. 419-431
- Sanger-Katz, Margot, “[In the U.S., an Angioplasty Costs \\$32,000. Elsewhere? Maybe \\$6,400](#)”, *The New York Times*, Dec 27, 2019

2. January 9: Cost-Benefit analysis, Valuing Health

- Henderson, pp. 110-121; SN, pp. 83-100
- Viscusi, W. K., 2008, “[The Value of Life](#)” Vanderbilt University Law School Working Paper
- Phillips, Ceri, 2009, “[What is a QALY?](#)”
- [Pricing Human Life](#) blog post by Uwe Reinhardt
- Henriques, Diana, 2001, “[In Death’s Shadow, Valuing Each Life](#)”, *The New York Times*, Dec 30, 2001
- McGinty, Jo Craven, “[Why the Government Puts a Dollar Value on Life](#)”, *The Wall Street Journal*, March 25, 2016

3. January 14: The ‘Production’ of Health

- FGS, pp. 85-102; Deaton, pp. 59-73, 81-100;
- Cutler, D, Deaton, A, and Lleras-Muney, A, 2006, [The Determinants of Mortality](#), Journal of Economic Perspectives, 20(3), 97-120
- Preston, Sam, 1996, [American Longevity: Past, Present, and Future](#), Syracuse University Policy Brief No. 7/1996.
- Chetty, Raj, et al. 2016, [“The Association Between Income and Life Expectancy in the United States, 2001-2014”](#), JAMA 315(16), pp. 1750-1766
- Almond, Douglas, et al. 2010, [“Estimating Marginal Returns to Medical Care: Evidence from At-risk Newborns”](#), QJE 125(2), 591-634

4. January 16: The Production, Cost and Technology of Health Care

- FGS, pp. 105-113
- Card, David, Dobkin, Carlos, and Nicole Maestas: [“Does Medicare Save Lives?”](#), NBER WP No. 13668
- Gawande, A., 2010, [“The Cost Conundrum”](#), *The New Yorker*, June 1 2009
- Cutler, D, and McClellan, M, 2001 [“Is Technological Change in Medicine Worth It?”](#), *Health Affairs* 20(5), 11-29

5. January 21: Consumer choice Theory and Demand for Health Care, I

- BHT, pp. 8-23; FGS, pp. 173-180
- Gawande, A., 2011, [“The Hot Spotters”](#), *The New Yorker*, January 24 2011
- Robinson, J and Ginsburg, P., 2009 ,[”Consumer-Driven health Care: Promise and Performance”](#), *Health Affairs* 28(2), w272-w281

6. January 23: Consumer choice Theory and Demand for Health Care, II

- Manning, Willard, et al., 1987 [“Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment”](#), *American Economic Review* 77(3), 251-277

7. January 28: Health Insurance I

- BHT, pp. 126-137
- Buchmueller, T. 2006, [“Consumer Demand for Health Insurance”](#) NBER Research Summary
- Kaiser Family Foundation, 2009, [“Explaining Healthcare Reform: What are Health Insurance Exchanges?”](#)
- Gruber, J. 2006, [“The Role of Consumer Copayments for Health Care: Lessons from the RAND Health Insurance Experiment and Beyond”](#), Kaiser Family Foundation
- Goodell and Swartz, 2010, [“Cost-sharing: Effects on Spending and Outcomes.”](#) Robert Wood Johnson Foundation Synthesis Project Policy Brief No. 20
- Carroll, Aaron E., [“Even a Modest Co-Payment Can Cause People to Skip Drug Doses”](#), *The New York Times*, Nov 11, 2019

8. January 30: Health Insurance II

- BHT, pp. 141-155
- Cutler, D, and Zeckhauser, R, 1997, [“Adverse Selection in Health Insurance”](#), NBER Working Paper 6107

9. February 4: Health Insurance III, Managed Care

- FGS, pp. 236-245; Henderson, pp. 210-222
- Miller, R. and H. Luft, 2002, "[HMO Plan Performance Update: An Analysis of the Literature, 1997-2001](#)" Health Affairs, 21(4): 63-86
- Frakt, Austin, "[Accountable Care Organizations: Like H.M.O.s, but Different](#)", NYT

10. February 6: Midterm

11. February 11: Health Insurance IV, Health insurance and the labor market, discrimination, rationing

- Summers, L, 1989, "[Some Simple Economics of Mandated Benefits](#)", AER 79(2), 177-183
- Blumberg, L. 1999, "[Perspective: Who Pays For Employer-Sponsored Health Insurance?](#)" *Health Affairs*, 18(6), 58-61
- Madrian, B., 2006, "[The U.S. Health Care System and Labor Markets](#)" NBER Working Paper No. 11980
- Garthwaite, C, et al., 2014, "[Public Health Insurance, Labor Supply, and Employment Lock](#)", Quarterly Journal of Economics, 129(2)

12. February 13: Hospitals, Pay-for-performance, Nonprofits

- BHT pp. 100-119, SN pp. 397-428
- Reinhardt, U., 2006,, "[The Pricing of U. S. Hospital Services: Chaos Behind A Veil of Secrecy](#)", *Health Affairs*, 25(1), 57-69
- Cutler, D, and Scott Morton, F, 2013, "[Hospitals, Market Share, and Consolidation](#)", JAMA 310(18), 1964-1970
- Cooper, Zack, et al., "[The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured](#)", NBER WP 21815

13. February 18: Physicians

- SN pp. 364-375
- Baicker, K, Fisher, E, Chandra, A., 2007, "[Malpractice Liability Costs and the Practice of Medicine in the Medicare Program](#)", *Health Affairs*, 26(3): 841-852
- Gruber, J, Owings, M, 1996, "[Physician Financial Incentives and Cesarean Section Delivery](#)", RAND Journal of Economics 27(1), 99-123

14. February 20: The pharmaceutical industry, Health Care and Technological Change, the Health Care Quadrilemma

- BHT pp. 230-236; FGS pp. 354-364; Henderson pp. 288-308
- Weisbrod, B., 1991, "[The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment](#)" Journal of Economic Literature, 29: 523-552
- Aitken, M, et al., 2016, "[Has The Era Of Slow Growth For Prescription Drug Spending Ended?](#)", Health Affairs
- Congressional Budget Office, 2008, "[Technological Change and the Growth of Health Care Spending](#)"
- (Optional): Scott Morton, F, and Lysle Boller (2017) "[Enabling Competition in Pharmaceutical Markets](#)", Hutchins Center Working Paper #30, Brookings Inst.

15. February 25: The effects of Government Intervention in Health Care Markets

- BHT pp. 384-393, FGS pp. 440-451, Gruber pp. 453-476
- Brown, David, Kowalski, Amanda, Lurie, Ithai, “[Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts?](#)”, NBER WP 20835
- Wherry, LR; Miller, S; Kaestner, R; Meyer, Bruce D (2018): “[Childhood Medicaid Coverage and later life health care utilization](#)”, *The Review of Economics and Statistics* 100(2)

16. February 27: Comparative Health Care Systems and Health Care Reform, Part I

- Anderson, G, et al., 2003, “[It’s The Prices, Stupid: Why The United States Is So Different From Other Countries](#)”, *Health Affairs*, 22(3), 89-105
- Papanicolas, I., et al, 2018, “[Health Care Spending in the United States and Other High-Income Countries](#)”, *JAMA* 319(10), pp. 1024-1039
- Cutler, D, and Ly, D, 2011, “[The \(Paper\)Work of Medicine: Understanding International Medical Costs](#)”, *Journal of Economic Perspectives* 25(2), 3-25

17. March 3: Comparative Health Care Systems and Health Care Reform, Part II

- Sommers, B, et al., 2017 “[Health Insurance Coverage and Health – What the Recent Evidence Tells Us](#)”, *NEJM* 377(6), 586-593
- Goldin, J, et al., 2019, “[Health Insurance and Mortality: Experimental Evidence from Taxpayer Outreach](#)”, NBER WP 26533
- Readings available on *Canvas* prior to class

18. March 5: Comparative Health Care Systems and Health Care Reform, Part III; Review

- Readings available on *Canvas* prior to class

Final Exam: March 19, 12:00 noon - 2:00 pm