

Health Economics
ECON 236

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Fall 2016
TuTh 10:30-12
ANNS 111

TA: TBD

Economics 236 is an advanced undergraduate course on the economics of health care provision and payment. In this course we will use the tools of microeconomics to analyze the functioning of different pieces of the health care system. We will draw from the sub-disciplines of information economics, industrial organization, labor economics, public economics, and behavioral economics. The primary goal is to use these tools to develop a critical analysis of the functioning of the health care system as well as of the policies aimed at improving it. We will learn about U.S specific institutional details and policies (most notably the Affordable Care Act), and we will compare them to other important international experiences.

Prerequisites: ECON 101, MATH 104 and MATH 114 or 115. Wharton students can satisfy the ECON 101 prerequisite with BEPP 250 HONORS. The regular BEPP 250 course does not count as a substitute for ECON 101.

Grading:

- Two midterms (closed book), September 29 (25%) and November 10 (25%)
- Homework (3, 25% total), due in September 22, October 27, and December 6
- Final Examination (25%, closed book)

Office Hours: Wednesdays 1-2 and by appointment.

Course Website: Course information is available in Canvas, which I recommend to check regularly. Canvas is the official channel I will use to make announcements, post slides, homework, readings, etc.

Required Textbook: Health Economics, by Jay Battacharya, Timothy Hyde, and Peter Tu (BHT), Palgrave Macmillan, 2013

Other online resources Health Care Triage (Youtube Channel):

<https://www.youtube.com/user/thehealthcatriage>; Health Care Dive:

<http://www.healthcaredive.com/>; Kaiser health news: <http://khn.org/about-us/>

Course Policies

The Department of Economics maintains a common set of policies that apply to all classes. By taking this class you agree to abide by these policies. Please read these policies carefully, which can be found here:

<https://economics.sas.upenn.edu/?q=undergraduate-program/course-information/guidelines/policies>

Attendance and make-up exams: Attending midterms and the final exam is mandatory. Please make sure that you schedule your travels, including job interviews, to avoid the exam dates. I will follow the Department's policies regarding exam attendance. There will be no make-up written exams. However, if you have one of the valid excuses listed in the Department's policy for missing an exam - and appropriately reported in the CAR system - your next exam will be worth 50% of your grade if the one you missed is either the first or the second midterm. A make-up exam for students who miss the final exam will be offered following the Department's rules.

Email policy: You may expect me to respond to emails between 9 and 5 Monday through Friday, and within 48 hours of receiving it. I am happy to use email to respond to fairly simple queries. Please see me in office hours for more involved discussions. When you email, please be specific about the subject of the email.

Electronic devices: You may use laptops or tablets in this class to consult online readings or to take notes. Common courtesy dictates that you should not use laptops and cell phones for anything other than the topics of our class. Please place your phone on mute before you come to class. The use of electronic devices during the exams is strictly prohibited.

Re-grading: All re-grade requests for exams must be submitted in writing with a full explanation of why you think the work was incorrectly graded. We will not accept for re-grading any work written in pencil or that appears to have been altered. Except in cases where the grader has added numbers incorrectly, we will only re-grade entire exams. As a consequence, once you submit your work for re-grading, the grade can go either up or down.

Students with disabilities: In compliance with Penn policy and equal access laws, I am available to discuss appropriate academic accommodations that you may require as a

student with a disability. Requests for academic accommodations need to be made during the first two weeks of the semester, except under unusual circumstances, to arrange reasonable accommodations. Students must register with Student Disabilities Services (SDS) for disability verification and for determination of reasonable academic accommodations.

Academic integrity: It is your responsibility to be familiar with the University's Code of Academic Integrity. Instances of academic dishonesty will be referred to the Office of Student Conduct for adjudication.

Course Outline

I. Demand for Health and Health Care: Model health and health care decisions. Empirical evidence on how economic factors affect these decisions.

II. Demand for Insurance: Expected-utility theory, risk aversion. Choice complexity and departures from full optimization.

III. Adverse Selection: How information asymmetries affect the function of health insurance markets. Potential solutions to adverse selection. Empirical evidence.

IV. Moral Hazard: The downside of insurance. Limiting Moral Hazard. Empirical Evidence.

V. The American Model and the Affordable Care Act: Overview of the US health care system. The main goals of the Affordable Care Act, it's proposed solutions, and early assessment of its functioning.

VI: Delivery of Health Care: Physicians and the Hospital Industry: The role of physicians. The relationship between physicians and hospitals. Hospital competition.

VII. Why are Costs So High?: The role of technology growth and innovation, population aging, and organizational management and efficiency. Rationing.

VIII. Pharmaceutical Markets and Innovation: The workings of the pharmaceutical industry, innovation and the role regulation.

IX. International Health Care Systems and Alternative Designs: Contrast the U.S. model with typical health system designs of other countries. The Bismark model. The Beveridge Model.

Readings

I. Demand for Health and Health Care

BHT Chapters 1-3

II. Demand for Insurance

BHT, Chapter 7

Bhargava, S., Loewenstein, G. and Sydnor, J. Do Individuals Make Sensible Health Insurance Decisions? Evidence from a Menu of Dominated Options. *Read Introduction and Conclusion.*

Surowiecki, J. "Obamacare's Inertia Problem", The New Yorker, December 8, 2014. Available at <http://www.newyorker.com/magazine/2014/12/08/obamacares-inertia-problem>

III. Adverse Selection

BHT, Chapter 8, 9.11, 10

Einav, L. and A. Finkelstein, 2011. "Selection in Insurance Markets: Theory and Empirics in Pictures" *Journal of Economic Perspectives*, 2011, 25(1): 115-138.

Cutler, D. and Reber, S. 1998. "Paying for Health Insurance: The Trade-Off between Competition and Adverse Selection," *Quarterly Journal of Economics*. *Pages 433-444 and conclusion only.*

Handel, B. and Kolstad, J. "Getting the Most From Marketplaces: Smart Policies on Health Insurance Choice," *Brookings Institute Hamilton Project Discussion Paper 2015 - 08.*

IV. Moral Hazard

BHT, Chapter 11

Gladwell, M. 2005. "The Moral Hazard Myth," *The New Yorker*, August 29, 2005. Available at <http://www.newyorker.com/magazine/2005/08/29/the-moral-hazard-myth>

Recent VOX article on research: <http://www.vox.com/2015/10/14/9528441/high-deductible-insurance-kolstad>

V. The American Model and the Affordable Care Act

Gruber, J. 2008. "Covering the Uninsured in the United States," *Journal of Economic Perspectives*.

Kaiser Family Foundation: Summary of the Affordable Care Act

Cutler, D. 2010. "The Simple Economics of Health Reform," *The Economists' Voice*.

Heritage Foundation, 2010. "The Case Against Obamacare," *Chapters 1,2,4,8 and 9*.

Glied, S and Ma, S. 2015 "How Will the Affordable Care Act Impact the Use of Health Care Services?" *The Commonwealth Fund*.

Blumenthal, D., Abrams, M. and Nuzum, R. 2015, "The Affordable Care Act at Five Years," *The New England Journal of Medicine*

Sommers, B. 2015. Health Care Reform's Unfinished Work — Remaining Barriers to Coverage and Access, *The New England Journal of Medicine*.

Moffit, R. 2016: Year Six of Obamacare's Mounting Problems. *The Heritage Foundation*.

Optional: Chapters 1-12: Gruber, J. *Health Care Reform: What It Is, Why It's Necessary, How It Works*. 2012.

VI. Delivery of Health Care: Physicians and the Hospital Industry

BHT, Chapter 5.4, 6

VII. Why are Costs So High?

BHT Chapter 13, 19

Chandra, A. and Skinner, J. "Technology Growth and Expenditure Growth in Health Care," NBER Working paper no. 16953, April 2011. *Read introduction only*

Cutler, D. and M. McClellan. "Is Technological Change Worth It?" Health Affairs Sept/Oct. 2001. *Read introduction only*

Gawande, A. "The Cost Conundrum" The New Yorker, June 2009. Available at <http://www.newyorker.com/magazine/2009/06/01/the-cost-conundrum>

Gawande, A. "Big Med" New Yorker, August 2012. Available at <http://www.newyorker.com/magazine/2012/08/13/big-med>

Cutler, D. "Where are the Health Care Entrepreneurs? The Failure of Organizational Innovation in Health Care," NBER working paper no. 16030, May, 2010.

Gawande, A. "The Checklist" New Yorker, May 2010. Available at: <http://www.newyorker.com/magazine/2007/12/10/the-checklist>

VIII. Pharmaceutical Markets and Innovation

BHT, Chapter 12

Lakdawalla, D. et al. "U.S. Pharmaceutical Policy in a Global Marketplace," Health Affairs, 2009.

IX. International Health Care Systems and Alternative Designs

BHT, Chapters 15, 16, 17