

Health Economics
ECON 236

Prof. Juan Pablo Atal
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Fall 2018
TuTh10:30-15:00
MCNB 286-7

TA:

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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:

The grade of the course will be based on:

- Three midterms (closed book)
 - **MT1: September 25 (25%)**
 - **MT2: November 6 (25%)**
 - **MT3: December 6 (25%)**
- Homework (3, 25% total), due: **September 20, October 30 and November 27.**

Notes:

1. You will be required to work on the homework in groups
2. Homework 3 consists on a small research project and an in-class presentation.

Additional credit may be given based on class attendance and participation in class discussions on some marginal cases.

No extra credit assignments will be given.

Office Hours:

- Prof. Atal: Wednesday 4-6pm.
- Michal: Tuesday 10-12pm

Course Material: Canvas is the official channel I will use to make announcements, post slides, homework, readings, etc. You must check Canvas regularly. Documents (including problem sets, practice exams, exams and their solutions), regardless of whether they are physically distributed during this course or are posted on Canvas site, are only for students enrolled in this course. Any re-posting online (or on any course material sharing website) is prohibited.

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 Policy: It is mandatory to attend the midterms. 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. The policy is copied below:

"In cases where attendance at a midterm or a final exam is mandatory, there are only a few valid excuses for missing an exam. They are:

- Three exams scheduled within one calendar day (for final exams ONLY!) This

- policy of 3 exams does not count for midterm exams given during class time.
- An exam is given outside of the regular class schedule and the timing conflicts with another class in which the student is enrolled.
 - Observance of a university-recognized religious holiday.
 - UPENN Business that takes you away from campus. Absence from campus on UPENN business includes, for example, athletic events in which you are actively participating. In such cases, you need to make arrangements with your professor ahead of the exam date to take the exam at another time (preferably earlier than the schedule date).
 - An illness/health emergency.
 - A death in your family.
 - Documented disabilities that allow you to take the exam under other circumstances.

Examples of reasons that are not valid for missing an exam are:

- job internships;
- beginning fall or spring break early or returning after a scheduled exam;
- end of semester early flights; take home exams.
- any other reason you would prefer not to be at the university when the exam is scheduled.

Students are responsible for making sure, at the beginning of the term, that they can attend the exams. Registering for a course means that you certify that you will be present for the exam (unless one of the explicitly stated exceptions above arises.)

If you are unexpectedly ill at the time of the exam and unable to reach the instructor ahead of time, then you can give notification of your illness as soon as you are able. Do not take an exam if you are ill and then expect to have an opportunity to retake the exam because you were ill the first time and did poorly.

Students who arrive late to an exam will generally be required to hand in their exam at the same time as other students.”

Make-up exams: 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 a midterm exam - and appropriately reported in the CAR system – the following exams will be re-weighted accordingly to maintain the 100% total, as follows: If you miss the first midterm, midterm 2 and 3 will be worth 37.5% each. If you miss the second midterm, midterm 3 will be

worth 50% of your grade.

A make-up exam for students who miss the last 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.

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. The deadline to submit the request will be announced when exams are returned. 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.

Temptative 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.

III. Adverse Selection: How information asymmetries affect the functioning of health insurance markets. Empirical evidence. Choice complexity and departures from full optimization.

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

V. Delivery of Health Care: Physicians and the Hospital Industry: The role of physicians, The hospital industry.

VI. Technology Assessment: The role of technology and innovation on growing costs. Cost-effectiveness and cost-benefit analysis.

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

VIII. The American Model and the Affordable Care Act: Overview of the US health care system. The main goals of the Affordable Care Act, early assessment of its functioning, current debate.

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.

Preliminary reading list

Demand for Health and Health Care

BHT Chapters 1-3.

Aron-Dine, A, L. Einav, and A. Finkelstein, 2013 “The RAND Health Insurance Experiment, 30 years later” *Journal of Economic Perspectives*.

Card, D., C. Dobkin, and N. Maestas, 2009: “Does Medicare Save Lives?” *Quarterly Journal of Economics*.

Demand for Insurance

BHT, Chapter 7

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.*

Choice Complexities

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.*

Abaluck, J. and J. Gruber (2011) “Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program” *American Economic Review*

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

Handel, B. (2013) "Adverse Selection and Inertia in Health Insurance Markets: When Nudging Hurts", American Economic Review

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>

High Deductible Insurance VOX article: <http://www.vox.com/2015/10/14/9528441/high-deductible-insurance-kolstad>

Delivery of Health Care: Physicians and the Hospital Industry

BHT, Chapter 5.4, 6

Dickstein, M. (2015) "Physician v.s Patient Incentives in Prescription Drug Choice"

Eliason, Grieco, McDevitt, Roberts (2018): "Strategic Patient Discharge: The Case of Long-Term Care Hospitals", forthcoming American Economic Review

Einav, Finkelstein, Mahoney (2018), "Provider Incentives and Health Care Costs: Efficende from Long-Term Hospitals", forthcoming Econometrica

Health Technology Assessment.

BHT Chapter 13, 19

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

Cutler, D. and M. McClellan. 2011. "Is Technological Change Worth It?" Health Affairs Sept/Oct. 2001. *Read introduction only*

Gawande, A. 2009 "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>

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

Leon, G, and T. Miguel (2016) "Risky Transportation and the Value of a Statistical Life"

Pharmaceutical Markets and Innovation

BHT, Chapter 12

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

Lakdawalla, D. "Economics of the Pharmaceutical Industry", Journal of Economic Literature (2018)

Budish, E., B. Roin and H. Williams (2016): Patents and Research Investments: Assessing the Empirical Evidence, AER P&P.

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.

Ghartwaite, Gross and Notowidigdo (2014) "Public Health Insurance, Labor Supply, and Employment Lock"

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

International Health Care Systems and Alternative Designs

BHT, Chapters 15, 16, 17