

**Economics 156/256 – Health Economics
Syllabus**

Stanford University
Fall 2002

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Course Summary

This course is an introduction to the field of health economics. Health economics is an active field of microeconomics with a large and growing literature. In the past decade, some of the most controversial policies considered by state and federal governments have involved issues that have been analyzed by health economists. This class will provide an introduction to the health care system in the U.S. We will discuss some of the key concepts that health economists use to analyze health care markets. Finally, we will apply these concepts to selected current issues in health policy.

Requirements

Students should have a firm grasp of microeconomics at the level of Intermediate Microeconomics. Students should also be comfortable with basic concepts in statistics. Much of the literature in health economics requires that readers be conversant in the language of statistics and econometrics, so we will review these as necessary.

Grading

The grade will be based on a midterm (20%) and a final (40%). In addition, there will be four problem sets that will count toward the grade in the class (40%). Performance on the examinations will no doubt be affected by the students' understanding of the material on the problem sets. The material covered on the examinations will come from the lecture notes, problem sets and required reading. If a student requests that some question on an examination be re-graded, I will review the entire examination. There will be no make-up final, so please plan ahead.

Reading Assignments

The text for the course is Health Economics, 3rd edition by Phelps. Another good text, which is recommended for the course (but not required) is The Economics of Health and Health Care, 2nd Edition by Folland, Goodman, and Stano (FGS). A course reader with all the required and recommended reading for the course will be available in the bookstore.

Lectures1 Sept 25 **The economic way of thinking about health care****Required readings:**

- Phelps, 3rd ed., ch.1-2
- Fuchs (1996) "Economics, Values, and Health Care Reform," *American Economic Review* 86(1):1-24
- Arrow (1963) "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53(5): 941-973

Recommended readings:

- Phelps, 3rd ed., Appendix
- FGS, Ch.1-2
- Iglehart (1999) "The American Health Care System: Expenditures," *New England Journal of Medicine*, 340(1):70-76.

2 Sept 30 **Health insurance****Required readings:**

- Phelps, 3rd ed., ch. 10
- Cutler and Zeckhauser (1999) "The Anatomy of Health Insurance" *NBER Working Paper* #7176

Recommended readings:

- FGS, Ch.11
- Levy and Meltzer (2001) "What Do We Really Know About Whether Health Insurance Affects Health?" *mimeo*, University of Chicago.
- Iglehart (2002) "Changing Health Insurance Trends," *New England Journal of Medicine*, 347(12):956-962

3 Oct 2 **Medicare and Medicaid**

Problem
Set #1
handed
out

Required readings:

- Phelps, 3rd ed., ch. 12
- Yelowitz (1995) "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions" *Quarterly Journal of Economics*, 110(4):909-939.

Recommended readings:

- FGS, Ch.21
- Iglehart (1999) "The American Health Care System: Medicaid," *New England Journal of Medicine* 340(5): 403-8
- Iglehart (1999) "The American Health Care System: Medicare," *New England Journal of Medicine*, 340(4): 327-332.

4 Oct 7 **The law of unintended consequences****Required readings:**

- Phelps, 3rd ed., ch. 15

Recommended readings:

- FGS, Ch. 19, 20
- Cutler (2002) "Health Care and the Public Sector" *NBER Working Paper #8802*

5 Oct 9 **Hospitals and the theory of non-profits**

Problem Set #1 due;

Required readings:

- Phelps, 3rd ed., Ch. 8 and 9

Problem Set #2 handed out

Recommended readings:

- FGS, Ch. 17-18
- Kessler and McClellan (2001) "The Effects of Hospital Ownership on Medical Productivity" *NBER Working Paper #8357*
- Lakdawalla and Philipson (1998) "Non-Profit Production and Competition" *NBER Working Paper #6377*

6 Oct 14 **Employer provision of health care (guest lecture by Dr. Kate Bundorf)****Required readings:**

- Feldman et al. (1989) "The Demand for Employment Based Health Insurance Plans," *Journal of Human Resources*, 24(1):115-142.
- Bundorf (2002) "Employee Demand for Health Insurance and Employer Health Plan Choices," *Journal of Health Economics*, 21(1):65-88

Recommended readings:

- Stabile (2001) "Private Insurance Subsidies and Public Health Care Markets: Evidence from Canada," *Canadian Journal of Economics* 34(4):921-942
- Feldman et al. (1997) "The Effect of Premiums on the Small Firm's Decision to Offer Health Insurance" *Journal of Human Resources*, 32(4):635-58.

7 Oct 16 **Managed care (guest lecture by Dr. Laurence Baker)****Required readings:**

- Phelps, 3rd ed., Ch.11

Recommended readings:

- FGS, Ch.12
- Jacobson and Pomfret "ERISA Litigation and Physician Autonomy", *JAMA*. 283:921-926
- Robinson (2001) "The End of Managed Care" *JAMA*. 285:2622-2628
- Iglehart (1992) "The American Health Care System: Managed Care," *New England Journal of Medicine*, 327:742-8.
- Miller and Luft (1994) "Managed Care Plan Performance Since 1980: A Literature Analysis," *JAMA*, 271(19):1512-1519.

8 Oct 21 **Physicians****Required readings:**

- Phelps, 3rd ed., Ch.6 and 13

Recommended readings:

- Phelps, 3rd ed., Ch. 7
- FGS, Ch. 16
- Kessler and McClellan (1996) “Do Doctors Practice Defensive Medicine?” *Quarterly Journal of Economics*, 111(2):353-390
- McClellan and Kessler (2000) “Medical Liability, Managed Care, and Defensive Medicine,” National Bureau of Economic Research Working Paper #7537

9 Oct 23 **Uninsurance: causes and consequences**

Problem
Set #2
due

Required readings:

- Farber and Levy (2000). “Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse?” *Journal of Health Economics* 19(1):93-119.
- Levy and Deleire (2002) “What do People Buy When They Don’t Buy Health Insurance?” *Working Paper*, Harris School, University of Chicago.
- Schoen and DesRoches (2000) “Uninsured and Unstably Insured: The Importance of Continuous Insurance Coverage,” *Health Services Research*, 35 (1, Part II): 187-206.

Recommended readings:

- Pol, Mueller, and Adidam (2000) “Health Insurance in the Near Elderly Population,” *Population Research and Policy Review* 19:97-112.
- Glied and Stabile, (2000) “Explaining the Decline in Health Insurance Coverage among Young Men,” *Inquiry* 37:295-303

10 Oct 28 **Technological change and health care****Required readings:**

- Weisbrod (1991) “The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment” *Journal of Economic Literature* 29(2): 523-552
- Newhouse (1992) “Medical Care Costs: How Much Welfare Loss?” *Journal of Economic Perspectives* 6(3): 3-21.

Recommended readings:

- FGS, Ch. 14
- Cutler and McClellan (2001) “Is Technological Change in Medicine Worth It?” *Health Affairs*, 20(5):11-29.
- Kingsley Davis (1956) “The Amazing Decline of Mortality in Underdeveloped Areas,” *American Economic Review*, 46(2): 305-318.
- Mokyr (1993) “Technological Progress and the Decline of European Mortality” 83(2):324-330.

11 Oct 30 **Midterm**

12 Nov 4 **The demand for health care**

Required readings:

- Phelps, 3rd ed., Ch. 4-5

Recommended readings:

- FGS, Ch. 6
- Manning et al. (1987) "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, 77(3): 251-277.

13 Nov 6 **Human capital and health**

Problem set #3 handed out

Required readings:

- Smith (1999) "Healthy Bodies and Thick Wallets: The Dual Relationship Between Health and Economic Status," *Journal of Economic Perspectives*, 13(2): 145-166.
- Grossman (1972) "On the Concept of Health Capital and the Demand for Health," *Journal of Political Economy*, 80(2): 223-255.

Recommended readings:

- FGS, Ch. 4-5
- Goldman and Smith (2002) "Can patient self-management help explain the SES health gradient?" *Proceedings of the National Academy of Sciences* 99:10929-10934

14 Nov 11 **Informational asymmetries in health insurance markets**

Required readings:

- Akerlof (1970) "The Market for "Lemons": Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84(3):488-500.
- Rothschild and Stiglitz (1976) "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics*, 90(4):629-649.
- Cochrane (1995) "Time-Consistent Health Insurance," *Journal of Political Economy*, 103(3):445-473.

Recommended readings:

- FGS, Ch.7
- Crocker and Moran (2002) "Contracting with Limited Commitment: Evidence from Employment - Based Health Insurance Contracts," *mimeo*, University of Michigan Business School

- 15 Nov 13 **Externalities in health care markets—Economic vs. Epidemiologic Epidemiology**
- Problem Set #3 due;
- Problem Set #4 handed out
- Required readings:**
- Phelps, 3rd ed., Ch. 14
 - Philipson, (1996) “Private Vaccination and Public Health: An Empirical Examination for U.S. Measles,” *Journal of Human Resources*, 31(3): 611-630.
 - Philipson (1999) “Economic Epidemiology and Infectious Diseases,” *NBER Working Paper #7037*.
- Recommended readings:**
- Ahituv et al. (1996) “The Responsiveness of the Demand for Condoms to the Local Prevalence of AIDS,” *Journal of Human Resources*, 31(4):869-897.
 - Philipson and Posner (1995) “A Theoretical and Empirical Investigation of The Effects of Public Health Subsidies for STD Testing,” *Quarterly Journal of Economics*, 110(2):445-474.
 - Geoffard and Philipson (1996) “Rational Epidemics and Their Public Control,” *International Economic Review*, 37(3):603-624.
 - Geoffard and Philipson (1997) “Disease Eradication: Private versus Public Vaccination,” *American Economic Review*, 87(1): 222-230.
 - Dow et al. (1995) “Disease Complementarities and the Evaluation of Public Health Interventions,” *NBER Working Paper #5216*.
- 16 Nov 18 **The falling price of health care**
- Required readings:**
- Cutler *et al.* (1996) “Are Medical Prices Declining? Evidence from Heart Attack Treatments,” *Quarterly Journal of Economics* 113:991-1024.
- 17 Nov 20 **Risk mitigation and bequests: life insurance and viatical settlement markets**
- Required readings:**
- Cawley and Philipson (1999) “An Empirical Examination of Information Barriers to Trade in Insurance,” *American Economic Review*, 89(4):827-846
- 18 Nov 25 **Randomized trials, observational data, and outcomes measurement in health care**
- Required readings:**
- Angrist, Imbens, and Rubin (1996) “Identification of Causal Effects Using Instrumental Variables,” *Journal of the American Statistical Association*, 91:444-455.
 - McClellan, McNeil, Newhouse (1994) “Does more intensive treatment of acute myocardial infarction in the elderly reduce mortality? Analysis using instrumental variables,” *JAMA* 272(11):859-66.
- Recommended readings:**
- Goldman et al. (2001) “Effect of Insurance on Mortality in an HIV-Positive Population in Care” *Journal of the American Statistical Association* 96(455):883-894.

- Chan and Hamilton (2002) “Structural Econometric Analysis of Randomized Clinical Trials: The Case of ACTG175,” *mimeo*, Washington University in St. Louis.
- Harris and Remler (1998) “Who is the marginal patient? Understanding instrumental variables estimates of treatment effects,” *Health Services Research* 33(5):1337-60.

19 Nov 27 **The demographics of health: aging, obesity, and disability**

Problem
set #4
due

Required readings:

Recommended readings:

- Lakdawalla, Bhattacharya, Goldman (2001) “Are the Young Becoming More Disabled?” *NBER Working Paper* #8247
- Lakdawalla and Philipson (2002) “The Growth of Obesity and Technological Change: A Theoretical and Empirical Examination,” *NBER Working Paper* #8946
- Philipson and Posner (1999) “The Long Run Growth in Obesity as a Function of Technological Change,” *NBER Working Paper* #7423
- Manton and Gu (2001) “Changes in the prevalence of chronic disability in the United States black and nonblack population above age 65 from 1982 to 1999” *Proceedings of the National Academy of Sciences* 98: 6354-6359
- Manton, Corder, and Stallard (1997) “Chronic disability trends in elderly United States populations: 1982-1994,” *Proceedings of the National Academy of Sciences* 94: 2593-2598

20 Dec 13 **Final — 8:30am-11:30am**