

**Spring 2016**  
**M,W 11:30am to 1:20pm (plus occasional Fri 9:30-11:20am)**

**Liran Einav**

### **Econ 249: Topics in Health Economics**

The course will cover key topics in health economics, with a focus on the healthcare industry in the United States. The topics will be primarily empirical. In addition to covering existing work, a big part of the course will emphasize areas of research where additional research is feasible and warranted. Emphasis will also be given to the overlap between health economics and other applied micro fields, such as industrial organization, public economics, and labor economics.

The focus of the course will be on topics, not methods, and will therefore cater to a broad set of students, especially those with interest in applied microeconomics, broadly defined. Formally, this class satisfies the second-year field requirement for labor economics in the department of economics, but it should also be highly complementary to the second-year sequences in IO and public.

My goals in the course are to take students closer to the research frontier in several areas related to health economics, educate students about the specific aspects and institutions of the (highly complex) US healthcare system, and hopefully generate possible research topics and ideas that could lead to second-year papers and subsequent dissertations. I hope to balance two objectives: learning how to identify and pose interesting questions, and learning how to formulate and execute empirical analyses that sheds light on these questions. I also plan to highlight the use of theory to guide hypothesis testing and the specification of empirical models.

Below I list the tentative schedule of classes and topics, which will also include a fair amount of guest lectures given the large number of health-related scholars visiting Stanford this year.

For a general background, students are encouraged to consult the two following textbooks:

- *Health Economics*, by Bhattacharya, Hyde, and Tu, Palgrave Macmillan, 2013.
- *Your Money or Your Life*, by David Cutler, Oxford University Press, 2005.

For broad coverage of topics in the health economics literature, students may also consult the following handbooks:

- Culyer, Anthony J., and Joseph P. Newhouse, ed. *Handbook of Health Economics*, Volumes 1(A) and 1(B). New York: Elsevier, 2000.
- Pauly, Mark V., Thomas G. Mcguire, and Pedro P. Barros, ed. *Handbook of Health Economics*, Volume 2. New York: Elsevier, 2011.

## **Course logistics and requirements**

The class meets regularly on Mondays and Wednesdays, 11:30am–1:20pm in Room 206 (Landau Economics), and will also have several additional Friday morning meetings (9:30-11:20) in Room 351 (see class schedule). It will be a combination of my own lectures and a collection of guest lectures. I will be using Coursework to post material and send announcements. Student requirements will include three components (weight in the final grade in parentheses):

1. Problem sets that will mostly include reviews of papers, concepts, and research ideas (30%).
2. Class attendance, preparation, participation, and occasional short class presentations (35%).
3. Take-home final exam (35%).

## **Class topics and schedule**

1. Monday, March 28: Introduction
2. Wednesday, March 30: Selection markets
3. Monday, April 4: Demand for healthcare
4. Wednesday, April 6: Health insurance
5. Monday, April 11: Health insurance
6. Wednesday, April 13: Health insurance
7. Monday, April 18: Medicare and Medicaid
8. Wednesday, April 20 (Joanna Lahey): Health and labor
- . Monday, April 25: No class
9. Wednesday, April 27 (Loren Baker): Managed care and physician organizations
10. Friday, April 29 (Jay Bahtacharya): Obesity
- . Monday, May 2: No class
11. Wednesday, May 4 (Amanda Kowalski): The uninsured
12. Friday, May 6 (Mark Duggan): Disability
13. Monday, May 9: Hospitals
14. Wednesday, May 11 (Josh Gottlieb): Physician incentives

15. Friday, May 13 (Marcella Alsan): Health in developing countries

16. Monday, May 16: Managed competition

17. Wednesday, May 18 (Gui Woolston and Mark Cullen): Healthcare and “Big Data”

--. Friday, May 20: No class

18. Monday, May 23 (Jeff Clemens): Medical Innovation

19. Wednesday, May 25 (Pietro Tebaldi): The Affordable Care Act

20. Friday, May 27: Managed Competition

--. Wednesday, June 1: no class

## Reading List for my classes (\*\* denotes assigned readings)

(Readings for the guest lectures will be assigned prior to each class)

### 1. Introduction (Lecture 1)

Fisher, Elliott, David Goodman, Jonathan Skinner, Kristen Bronner (2009). "Health Care Spending, Quality, and Outcomes." The Dartmouth Institute for Health Policy and Clinical Practice, <http://www.dartmouthatlas.org>.

Fuchs, Victor R. (2014). "Why Do Other Rich Nations Spend So Much Less on Healthcare?" *The Atlantic*, July 23, 2014.

Garber, Alan M., and Jonathan Skinner (2008). "Is American Health Care Uniquely Inefficient?" *Journal of Economics Perspectives* 22(4), 27-50.

\*\*Hall, Robert E., and Charles I. Jones (2007). "The Value of Life and the Rise in Health Spending." *Quarterly Journal of Economics* 122(1), 39-72.

### 2. Adverse Selection (Lecture 2, 4, 5, 6)

#### Theory

Akerlof, George (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics* 84, 488-500.

\*\*Arrow, Kenneth (1963). "Uncertainty and the Welfare Economics of Medical Care." *American Economic Review* 53(5), 941-973.

\*\*Einav, Liran, Amy Finkelstein, and Mark R. Cullen (2010). "Estimating Welfare in Insurance Markets using Variation in Prices." *Quarterly Journal of Economics* 125(3), 877-921.

\*\*Hendren, Nathaniel (2013). "Private Information and Insurance Rejections." *Econometrica* 81(5), 1713-1762.

Miyazaki, H. (1977). "The Rat Race and Internal Labor Markets." *The Bell Journal of Economics* 8(2), 394-418.

Rothschild, Michael, and Joseph E. Stiglitz (1976). "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information." *Quarterly Journal of Economics* 90, 630-649.

Wilson, Charles (1977). "A Model of Insurance Markets with Incomplete Information." *Journal of Economic Theory* 16, 167-207.

Riley, John G. (1979). "Informational Equilibrium." *Econometrica* 47(2), 331-359.

#### Empirical work

\*\*Bundorf, Kate, Jonathan Levin, and Neale Mahoney (2012). "Pricing and Welfare in Health Plan Choice." *American Economic Review* 102(7), 3214-3248.

\*\*Cardon, James H., and Igal Hendel (2001). "Asymmetric Information in Health Insurance: Evidence from The National Medical Expenditure Survey." *RAND Journal of Economics* 32(3), 408-427.

Cohen, Alma, and Liran Einav (2007). "Estimating Risk Preferences from Deductible Choice." *American Economic Review* 97(3), 745-788.

\*\*Einav, Finkelstein, Stephen Ryan, Paul Schrimpf, and Mark Cullen, "Selection on Moral Hazard in Health Insurance," *American Economic Review*, 2013, 103 (1), 178-219

\*\*Einav, Liran, Amy Finkelstein, and Paul Schrimpf (2010). “Optimal Mandates and The Welfare Cost of Asymmetric Information: Evidence from The U.K. Annuity Market.” *Econometrica* 78(3), 1031-1092.

\*\*Fang, Hanming, Michael Keane, and Dan Silverman (2008). “Sources of Advantageous Selection: Evidence from the Medigap Insurance Market.” *Journal of Political Economy* 116(2), 303-350.

\*\*Finkelstein, Amy, and Kathleen McGarry (2006), “Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market.” *American Economic Review* 96, 938-958.

Finkelstein, Amy, and James Poterba (2004). “Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market.” *Journal of Political Economy* 112(1), 193-208.

\*\*Handel, Ben (2013). “Adverse Selection and Inertia in Health Insurance Markets: When Nudging Hurts.” *American Economic Review* 103(7), 2643-2682.

### 3. Demand for healthcare (Lecture 3)

\*\*Aron-Dine, Aviva, Liran Einav and Amy Finkelstein, “The RAND Health Insurance Experiment, Three Decades Later,” *Journal of Economic Perspectives*, 2013.

\*\*Finkelstein, Amy et al., “The Oregon Health Insurance Experiment: Evidence from the First Year,” *Quarterly Journal of Economics*, 2012.

Manning, Willard et al., “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment,” *American Economic Review*, 1987, 77(3), 251-177.

Chandra, Amitabh, Jonathan Gruber, and Robin McKnight, “Patient Cost-Sharing and Hospitalization Offsets in the Elderly,” *American Economic Review*, 2010, 100(1), 1-24.

Gladwell, Malcolm, “The Moral Hazard Myth,” *The New Yorker*, August 29, 2005.

Huskamp, Haiden, et al., “The Effect of Incentive-Based Formularies on Prescription-Drug Utilization and Spending,” *New England Journal of Medicine*, 2003 349 2224-2232.

Spenkuch, Jorg, “Moral hazard and Selection Among the Poor: Evidence from a Randomized Experiment,” *Journal of Health Economics*, 2012, 31, 72-85.

Zweifel, Peter and Willard G. Manning, “Moral Hazard and Consumer Incentives in Health Care,” in Anthony J. Culyer and Joseph P. Newhouse, eds., *Handbook of Health Economics*, Amsterdam: North-Holland, 2000.

### Medicare (Lecture 7)

Cabral, Marika, and Neale Mahoney (2013). “Externalities and Taxation of Supplemental Insurance: A Study of Medicare and Medigap.” Manuscript, UT Austin.

Clemens, Jeff (2014). “The Effect of U.S. Health Insurance Expansions on Medical Innovation.” NBER Working Paper No. 19761.

\*\*Clemens, Jeff, and Joshua Gottlieb (2014). “Do Physicians’ Financial Incentives Affect Treatment Patterns and Patient Health?” *American Economic Review* 104(4), 1320-1349.

Cutler, David, and Jonathan Gruber (1996). “Does Public Insurance Crowd out Private Insurance?” *Quarterly Journal of Economics* 111(2), 391-430.

Decarolis, Francesco (2015). “Medicare Part D: Are Insurers Gaming the Low Income Subsidy Design?” *American Economic Review*, 105(4), 1547-1580.

- \*\*Dobkin, Carlos, David Card, and Nicole Maestas (2009). “Does Medicare Save Lives?” *Quarterly Journal of Economics* 124(2), 597-636.
- Duggan, Mark, and Fiona Scott Morton (2006). “The Distortionary Effects Of Government Procurement: Evidence From Medicaid Prescription Drug Purchasing.” *Quarterly Journal of Economics* 121(1), 1-30.
- \*\*Duggan, Mark, and Fiona Scott Morton (2010). “The Effect of Medicare Part D on Pharmaceutical Prices and Utilization.” *American Economic Review* 100(1), 590-607.
- Ericson, Keith (2014). “Consumer Inertia and Firm Pricing in the Medicare Part D Prescription Drug Insurance Exchange.” *AEJ: Economic Policy* 6(1), 38-64.
- \*\*Finkelstein, Amy (2007). “The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare.” *Quarterly Journal of Economics* 122(1), 1-37.
- Finkelstein, Amy, and Robin McKnight (2008). “What Did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending.” *Journal of Public Economics* 92, 1644-1669.

### Hospitals (Lecture 13)

- Baicker, Katherine and Douglas Staiger, “Fiscal Shenanigans, Targeted Federal Health Care Funds, and Patient Mortality,” *Quarterly Journal of Economics*, 2005, 120(1), 345-386.
- \*\*Dafny, Leemore, “How Do Hospitals Respond to Price Changes?” *American Economic Review* 2005, 95: 1525-1547.
- Dranove, David, Mark Shanley, and Carol Simon. “Is Hospital Competition Wasteful?” *The Rand Journal of Economics* 23, no. 2 (1992): 247-262.
- \*\*Duggan, Mark, “Hospital Ownership and Public Medical Spending. *Quarterly Journal of Economics*, 2000, 115(4), 1343-1373.
- \*\*Ho, Katherine, “Insurer-Provider Networks in the Medical Care Market,” *American Economic Review*, 2009, 99(1): 393-430.
- Horwitz, Jill, “Making Profits and Providing Care: Comparing Nonprofit, For-Profit, and Government Hospitals,” *Health Affairs*, 2005, 23(3), 790-801.
- \*\*Kessler, Daniel and Mark McClellan, “Is Hospital Competition Socially Wasteful?” *Quarterly Journal of Economics*, 2000, 115(2), 577-615.
- “Examination of Health Care Cost Trends and Cost Drivers,” Massachusetts Attorney Generals’ Office, March 16, 2010.

### Managed Competition and Risk Adjustments (Lectures 16, 20)

- \*\*Brown, Jason, Mark Duggan, Ilyana Kuziemko, and William Woolston (2014). “How does Risk Selection Respond to Risk Adjustment? New Evidence from the Medicare Advantage Program.” *American Economic Review* 104(10), 3335-3364.
- \*\*Curto, Vilsa, Liran Einav, Jonathan Levin, and Jay Bhattacharya (2014). “Can Health Insurance Competition Work? Evidence from Medicare Advantage.” NBER Working Paper No. 20818.
- \*\*Liran Einav, Amy Finkelstein, Raymond Kluender, and Paul Schrimpf (2015). “Beyond statistics: The Economic Content of Risk Scores.” *AEJ: Applied Economics* 8(2).
- Enthoven, Alain C. (1993). “The History and Principles of Managed Competition.” *Health Affairs* 12(1), 24-48.

\*\*Glazer, Jacob, and Thomas G. McGuire (2000). “Optimal Risk Adjustment in Markets with Adverse Selection: An Application to Managed Care.” *American Economic Review* 90(4), 1055-1071.

Glazer, Jacob, Thomas G. McGuire, and Julie Shi (2014). “Risk Adjustment of Health Plan Payments to Correct Inefficient Plan Choice from Adverse Selection.” NBER Working Paper No. 19998.

\*\*Handel, Ben, Igal Hendel, and Michael D. Whinston (2015). “Equilibria in Health Exchanges: Adverse Selection vs. Reclassification Risk.” *Econometrica*, 83(4), 1261-1313.

Newhouse, Joseph P., Mary Price, Jie Huang, J. Michael McWilliams, and John Hsu (2012). “Steps To Reduce Favorable Risk Selection In Medicare Advantage Largely Succeeded, Boding Well For Health Insurance Exchanges.” *Health Affairs* 31(12), 2618-2628.