

Amherst College
Department of Economics
Economics 214
Fall 2017

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Office Hours: Tuesday 1-3

ECONOMICS 214: HEALTH ECONOMICS AND POLICY

Health care inspires many questions. The U.S. system, in particular, raises deep questions about its efficiency and equity. Why, as a country, do we spend so much on health care, and why so much on some people and so little on others? Why, as a country, have we chosen such a complex combination of public and private provision? How are we to judge the efficiency and equity of health care policy? How far can we get using economic methodologies, both theoretical and empirical, to shed light on these questions?

We will begin the course with an overview of the U.S. system and a consideration of how fundamental economic concepts – supply and demand, efficiency and equity – will help us understand health care dynamics. Next, we will consider individuals' demand for health, the derived demand for health care, and some features of the distribution of health. We will then develop a series of technical models to understand health insurance, focusing on moral hazard and adverse selection, and building our thinking around the fundamental challenge of spreading risk while maintaining incentives for health. Next, we turn our attention to the supply side of the market to understand the role of physicians, hospitals, and technology. Lastly, we investigate the role of government and use our acquired knowledge to understand and evaluate health care policy and reform.

Throughout the semester, we will pay careful attention to the nature of health care markets, the anatomy of market failures, and the implications for public policy. Economic models, empirical work, current issues, and public policies will be discussed throughout the course. In addition to technical problems and economic analyses, students will be asked to write analytical papers and participate actively in the discussion of current economic research and public policy.

Pre-requisites

Economics 111 is the only pre-requisite for this class.

Readings and Resources

Main text: *Health Economics*, Jay Bhattacharya, Timothy Hyde, & Peter Tu, 2014. (ISBN 978-1137029966)

Readings: There is an extensive list (below) of readings from newspapers, academic journals, and books. These are on e-reserves. You should print them out, annotate as you read, and bring your copies to class.

Course website: The Moodle site contains announcements, assignments, readings, and other materials.

Optional text: *Health Economics: Theories, Insights and Industry Studies*, Rexford E. Santerre & Stephen P. Neun, 2013.

Optional book: *Your Money or Your Life*, David Cutler, Oxford University Press, 2004.

Class

Class meets Mondays and Wednesdays from 12:30 to 1:50 in Beneski 107.

Please arrive on time and prepared to discuss the readings assigned for that day.

Assignments (with grade shares in parentheses)

Reading: All reading must be completed *before* the class in which it will be discussed.

Class Participation: Active class participation is expected. (10%)

In Class Assignments: Short essays and pop quizzes are possible. (10%)

Problem Sets and Short Papers: There will be several problem sets and short papers. (20%)

Midterm Exams: There will be two in-class exams. (20% each)

Final Paper: A final paper will be due in the final weeks of the semester. (20%)

Course Policies

Students are expected to do their part to foster a positive learning environment. To that end, students are expected to do the reading, attend class, arrive on time, and participate actively. Most importantly, students are expected to speak respectfully, listen attentively, engage with others and their ideas, and participate positively in all class endeavors.

Since the use of technology can hamper our collective engagement, no technology use is permitted in class. If you believe you have a valid reason to require technology, please come to discuss it with me.

I believe that the ad-hoc granting of exceptions to rules generates substantial inequality on the Amherst campus, and consequently I insist that all work be completed on time. Exceptions will be made only in cases of personal crisis, family crisis, or medical emergency. Please do not hesitate to ask for accommodations if you are under great strain.

Students must abide by the *Amherst College Honor Code*. Your work must be your own. If you consult any sources (including online sources), you must cite them clearly and completely. If you work with others, you must make a note of that on your own assignment. So that you have a clear understanding of your ethical obligations, I ask that you carefully reread the *Statement of Intellectual Responsibility* by September 15th.

ECONOMICS 214: HEALTH ECONOMICS AND POLICY

Introduction

Week 1 (9/6)

- Introduction
 - BHT Chapter 1: Why Health Economics
 - Cutler Chapters: “Introduction: Crisis by Design” and “Chapter 1: The Health of the Nation.”
 - Blendon, Robert J. and John M. Benson, “Americans’ Views On Health Policy: A Fifty-Year Historical Perspective,” *Health Affairs* 20(2): 33-46, March/April 2001.
 - Gawande, Atul, “The Cost Conundrum,” *The New Yorker*, June 1, 2009.

Week 2 (9/11)

- Health Care Systems, Institutions, and Reform
 - BHT Chapter 18. The American Model
 - Santerre and Neun Chapter 4: Health Care Systems and Institutions
 - Hoffman, Catherine, “National Health Insurance – A Brief History of Reform Efforts in the U.S.,” Kaiser Family Foundation Issue Brief, Publication Number 7871, March 2009.
 - Kaiser Family Foundation, “Summary of the Affordable Care Act,” March 2017.
 - *The New York Times*, “Is the Affordable Care Act Working?” October 26, 2014.
Stable url: <http://nyti.ms/1tubFIj>

Demand: Individuals and Health

Week 2 (9/13)

- Demand for Health Care
 - BHT Chapter 2: Demand for Health Care

Week 3 (9/18, 9/20)

- Demand for Health
 - BHT Chapter 3: Demand for Health: The Grossman Model
 - “The Impact of Early Adversity on Child Development (In Brief).” Harvard Center on the Developing Child (2007). url: www.developingchild.harvard.edu
- Socioeconomic Disparities in Health
 - BHT Chapter 4: Socioeconomic Disparities in Health
 - Garcia, Jennifer Jee-Lyn and Mienah Zulfacar Sharif, “Black Lives Matter: A Commentary on Racism and Public Health,” *American Journal of Public Health*, 105(8), August 2015.
 - “Economic shocks are more likely to be lethal in America,” *The Economist*, March 25, 2017.
 - Minkler, Meredith, Esme Fuller-Thomson, and Jack M. Guralnik, “Gradient of Disability across the Socioeconomic Spectrum in the United States,” *New England Journal of Medicine*, 355(7), August 17, 2006.
 - Scott, Janny, “Life at the Top in America Isn’t Just Better, It’s Longer,” *New York Times*, May 16, 2005.
 - *Health Affairs*, “Infographic: Health Equity,” *Health Affairs* 36: 976-977. doi:10.1377/hlthaff.2017.0393

Week 4 (9/25, 9/27)

- Obesity
 - BHT Chapter 22: Obesity
 - Belluck, Pam, “Children’s Life Expectancy Being Cut Short by Obesity,” *New York Times*, March 17, 2005.
 - Cutler, David, Edward Glaeser, and Jesse Shapiro, “Why Have Americans Become More Obese?” *Journal of Economic Perspectives* 17(3): 93-118, Summer 2003.

September 27, 2017 – likely date for 1st exam – on Intro and Demand

Insurance (and the Economics of Information)

Week 5 (10/2, 10/4)

- Demand for Insurance
 - BHT Chapter 7: Demand for Insurance
 - Baicker, Katherine and Amitabh Chandra, “Myths and Misconceptions About U.S. Health Insurance,” *Health Affairs*, 27(6): 533-543, October 21, 2008.
- Moral Hazard
 - BHT Chapter 11: Moral Hazard

Week 6 (10/11)

- Adverse Selection (Akerlof and Finkelstein/Einav)
 - BHT Chapter 8: Adverse Selection: Akerlof’s Market for Lemons
 - Einav, Liran and Amy Finkelstein, “Selection in Insurance Markets: Theory and Empirics in Pictures.” *Journal of Economic Perspectives*, 25(1): 115-138, Winter 2011.
 - Levin, Jonathan and James Poterba, “Amy Finkelstein: 2012 John Bates Clark Medalist,” *Journal of Economic Perspectives*, 26(4): 171-184, Fall 2012.

Week 7 (10/16, 10/18)

- Adverse Selection (Rothschild/Stiglitz)
 - BHT Chapter 9. Adverse Selection: The Rothschild-Stiglitz Model
- Private Health Insurance and Managed Care
 - BHT Chapter 10: Adverse Selection in Real Markets
 - Cutler Chapter 8: The Managed Care Debacle
 - BHT 18.1 and 18.2
 - Fisher, Elliott S. and Stephen M. Shortell, “Accountable Care Organizations: Accountable for What, to Whom, and How,” *JAMA* 304(15):1715-6, 2010. doi:10.1001/jama.2010.1513.
 - Dafny, Leemore S., “Are Health Insurance Markets Competitive?” *American Economic Review*, 100(4): 1399–1431, 2010.

October 25, 2017 – likely date for 2nd exam – on Insurance

Supply: Providers and Health Care

Week 8 (10/23, 10/25)

- Physicians
 - BHT Chapter 5: The Labor Market for Physicians
 - Cutler Chapter 7: You Get What You Pay For
 - Cutler Chapter 9: Paying for Health
 - Williams, Alex, “The Falling Down Professions,” *New York Times*, January 6, 2008.
 - Himmelstein, David U., Dan Ariely, and Steffie Woolhandler, “Pay-for-Performance: Toxic to Quality? Insights from Behavioral Economics,” *International Journal of Health Services*, 44(2): 203–14, 2014. doi: 10.2190/HS.44.2.a
 - Reyes, Jessica. 2007. “Reaching Equilibrium in the Market for Obstetricians and Gynecologists.” *American Economic Review*, 97(2): 407-411. doi: 10.1257/aer.97.2.407

Week 9 (10/30, 11/1)

- Hospitals
 - BHT Chapter 6: The Hospital Industry
 - Urbina, Ian, “In the Treatment of Diabetes, Success Often Does Not Pay,” *New York Times*, January 11, 2006.
- Economics of Health Innovation
 - BHT Chapter 13: Technology and the Price of Health Care
 - BHT Chapter 14: Health Technology Assessment
 - Cutler Chapter 2: Pricing the Priceless
 - Neumann, Peter J. and Dan Greenberg, “Perspective: Is The United States Ready For QALYs?,” *Health Affairs* 28(5): 1366-1371, September/October 2009.

Government and Health Policy

Week 10 (11/6, 11/8)

- Health Policy and the Role of Government
 - BHT Chapter 15. The Health Policy Conundrum
 - Garber, Alan and Jonathan Skinner, “Is American Health Care Uniquely Inefficient?” *Journal of Economic Perspectives* 22(4): 27-50, Fall 2008.
- Beveridge and Bismarck Models
 - BHT Chapter 16. The Beveridge Model: Nationalized Health Care
 - BHT Chapter 17. The Bismarck Model: Social Health Insurance

Week 11 (11/13, 11/15)

- The American Model: Overview
 - BHT Chapter 18. The American Model
 - Kaiser Family Foundation, “Summary of the Affordable Care Act,” March 2017.
- Medicare
 - BHT 18.3
 - Kaiser Family Foundation, “Visualizing Health Policy: Medicare Spending,” *Journal of the American Medical Association* 313(1):19, January 6, 2015. doi:10.1001/jama.2014.17249.

Week 12 (11/27, 11/29)

- Medicaid
 - BHT 18.4
 - Kaiser Family Foundation, “Medicaid Moving Forward,” January 2015. <http://kff.org/medicaid/fact-sheet/the-medicaid-program-at-a-glance-update/>
 - Bitler, Marianne P. and Madeline Zavodny, “Medicaid: A Review of the Literature,” National Bureau of Economic Research Working Paper No. 20169, May 2014.
- The Uninsured
 - BHT 18.5
 - Pear, Robert, “Without Health Benefits, a Good Life Turns Fragile,” *New York Times*, March 5, 2007.
 - Kaiser Family Foundation, “The Uninsured: A Primer,” *Kaiser Family Foundation*, November 2016. (<http://kff.org/uninsured/report/the-uninsured-a-primer/>)

Week 13 (12/4, 12/6)

- Health Care Reform
 - BHT 18.6
 - Cutler, David M. “The Simple Economics of Health Reform,” *The Economists’ Voice* 7(5): 1-5, 2010.
 - Connors, Elenora E., and Lawrence O. Gostin, “Health Care Reform – A Historic Moment in U.S. Social Policy,” *Journal of the American Medical Association*, 303(24): 2521-2522, June 2010.
 - Griffith, Kevin, Leigh Evans, and Jacob Bor, “The Affordable Care Act Reduced Socioeconomic Disparities In Health Care Access,” *Health Affairs* 36: 1503-1510, 2017. doi:10.1377/hlthaff.2017.0083

Week 14 (12/11, 12/13)

- Policy Discussion
 - New York Times, “Tracking the Affordable Care Act.” Browse. <http://www.nytimes.com/news/affordable-care-act/>
- Wrap-up