

Economics 482
Health Economics

Fall 2014

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The purpose of this course is to present ways in which economics analysis can be used to explain various types of behavior in the health care industry. Methods are explained that are useful in the analysis of the demand for and supply of medical care. The industry will be described in an economic context; tools of microeconomic analysis will be used to analyze behavior of consumers, producers, and insurers; public policies to regulate the industry and provide services for the poor and elderly will be analyzed from the perspective of economic efficiency. Finally, the theories developed throughout the course will be applied to current policy problems.

Required Tests: Charles E. Phelps, *Health Economics*, 5th Edition, Addison Wesley.

Readings Readings (*) are available on the Undergraduate Library reserve system Internet through the library website under the course number. Those labeled "Further Reading" are for background in case anyone would like more information.

R. J. Arnould, R. Rich; and W. White, (ARW), *Competitive Approaches to Health Care Reform*, Washington: Urban Institute Press, 1993. (This will be available at the Undergraduate Library. Unfortunately, it is out of print, but we will be using it extensively during section 7.

Requirements: There will be a midterm worth 40% and final worth 50% of your total grade. The other 10% will be based on classroom participation.

Approximately Midterm: October 10, 2014, 7:00 PM

1. Introduction

Required

*Phelps, Ch. 1 to p. 8.

*National Health Expenditure Data,

<http://www.cms.hhs.gov/NationalHealthExpenditureData/downloads/tables.pdf>

ASPE Issue Brief, "Long term Growth of Medical Expenditures-Public and Private,"

<http://aspe.hhs.gov/health/MedicalExpenditures/ib.pdf>

*Pauly, Mark, (1978), "Is Medical Care Different?," in Greenberg's *Competition in the Health Care Sector: Past, Present and Future*, FTC, March, pp. 1978.

*ARW, Chapter 12, Sloan, "Does the Market Choose the Correct Incentives to Get the Desired Outcomes? Market Failures Reexamined?"

2. An Overview of Medical Care Markets

*Phelps, Ch. 1, pps. 8-end of chapter.

3. The Economic Yardstick and Cost/Benefit Analysis

Required

*Phelps, Ch 14-especially the appendix.

*Read the chapters on general equilibrium and welfare optimization in any intermediate micro theory text.

*John M. Eisenberg, Clinical Economics, "A Guide to the Economic Analysis of Clinical Practices," JAMA, November 24, 1989, Vol 262, No. 20.

Further Reading

Reed, Shelby, et al, "Cost-Effectiveness of Imatinib versus Interferon- α plus Low Dose Cytarabine..." ACA Published online Oct. 2004.

Viscusi, W. Kip, (1990), "The Econometric Basis for Estimates of the Value of Life," Working Paper.

4. The Production of Health and Demand for Health

Required

*Phelps, Ch. 2, 3, 4 (except 96-106).

*Vita, A., R. Terry, H. Hubert and J. Fries, "Aging, Health Risks, and Cumulative Disability," NEJM, 338(15); April 1998, pp.1035-1041.

Discussion: Windsor of Savoy

Recommended

Grossman, M., (1972) On the concept of Health Capital and the Demand for Health, JPE 80(2), pp.223-55.

Folland, Goodman and Stano, The Economics of Health and Health Care, Prentice Hall, Ch. 6.

5. The Effect of Medical Care on Health

Required

*Phelps, Ch. 5

*Manning, W., et al, (1987) Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," AER 77(3), pp. 251-277.

*Finkelstein, Taubman, et al (2011). The Oregon Health Insurance Experiment: Evidence from the first Year, NBER Working Paper 17190

6. Health Insurance and Moral Hazard

Required

*Phelps, Ch. 4, pp. 96-106, Ch. 10, 11.

*Cutler, David, and Richard Zeckhauser, (2004), "Extending the Theory to Meet the Practice of Insurance," in Brookings-Wharton Papers on Financial Services Edited by R. Litan and R. Herring, (Washington, Brookings Institution Press), pp. 1-53.

*Arnould, R. and DeBrock, L., (1985), "The Effect of Provider Control of Blue Shield Plans on Health Care Market," *Economic Inquiry*, 23, pp. 449-474.

Further Reading

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

Cromwell, J., and Mitchell, J., (1986), "Physician Induced Demand for Surgery," *Journal of Health Economics*, Dec., pp. 293-313.

Dranove, D., and P. Weliner, (1994), "Physician-Induced Demand for Childbirths," *Journal of Health Economics*, 13, March, pp. 61-73.

7. Competition vs. Regulation

Required

*ARW, Ch. 1, 2, 4, 5, 6.

*Phelps, Ch. 12, 15.

Further Reading

Feldman, Roger, et. al., (1996), "Effect of Mergers on Health Maintenance Organization Premiums," *Health Care Financing Review*, 17(3), pp. 171-189.

*Arnould, R., L. DeBrock and J. Pollard, (1984) Do HMOs Produce Specific Services More Efficiently?," *Inquiry* 21, pp. 243-253.

Simon, Carol, et. al., (1995), "The Effect of Managed Care on the Income of Primary Care and Specialty Physicians: A State Level Analysis," Working Paper, June 1995.

8. Current Health Reform in the US

*Phelps, Ch 16 (Review Ch. 12, 15)

Health Reform Powerpoints prepared by Cornerstone

*Kaiser Family Foundation, Focus on Health Reform, Summary of New Health Reform Law, go to <http://www.kff.org/healthreform/upload/8061.pdf>

*Newhouse, Joseph, (Sept. 2010), "Assessing Health Reform's Impact on Four Key Groups of Americans,"

Health Affairs 29, No. 9 (2010), go to <http://content.healthaffairs.org/cgi/content/abstract/hlthaff.2010.0595> and click on full article

*Gruber, Jonathan, "Universal Health Insurance Coverage: Progress and Issues," Syracuse University Center for Policy Research, Policy Brief 41/2009.

*Gruber, J, Health Care Reform, Hill and Wang, a Division of Farrar, Straus, and Giroux, 2011.

9. Physician Services Markets

Required

*Phelps, Ch. 6, 7.

*Reinhart, Uwe, (1972), "A Production Function for Physician Services," *Review of Economics and Statistics*, 54(1), pp. 55-66.

*Blumenthal, David, (1996), "Effects of Market Reforms on Doctors and their Patients," *Health Affairs*, 15(2), pp. 171-184,

10. The Hospital Industry

Required

Phelps, Ch. 8, 9.

*Harris, J., (1977), "The Internal Organization of Hospitals: Some Economic Implications," *Bell Journal of Economics*, 8(2), pp. 467-482.

*Robinson, James C., and Lawrence Casalino, (1996), "Vertical Integration and Organizational Networks in Health Care," *Health Affairs*, 15(1), pp. 7-22.

11. Hospital Mergers and Competition

Required

*Spang, H., G. Bazzoli, and R. Arnould (2001) "Hospital Mergers and Savings for Consumers: Exploring the Evidence," *Health Affairs*, 20(4), pp. 150-158.

*Bazzoli, G., A. LaSasso, R. Arnould and M. Shalwitz, (2002) "Hospital Reorganization and Restructuring Achieved Through Merger," *Health Care Management Review*, 27(1), pp. 7-20.

*Spang, H., R. Arnould and G. Bazzoli, (2001) "The Effects of Hospital Mergers and Acquisitions: An Examination of Cost and Price Outcomes," *Quarterly Review of Economics and Finance* 49 (2009), pp. 323-342.

12. Long-Term Care

Required

*Scanlon, W.J., (1980), "A Theory of the Nursing Home Market," *Inquiry*, 17, (Spring), pp. 24-41.

*Nyman, J.A., (1984), "Prospective and 'Cost-Plus' Medicaid Reimbursements, Excess Medicaid Demand, and the Quality of Nursing Home Care," *Journal of Health Economics*, 4, pp. 237-259.

13. Medical Malpractice

Required

*Phelps, Ch. 13.

*Danzen, Patricia, Andrew J. Epstein, and Scott J Johnson, (2004), "The Crisis in Medical Malpractice Insurance," in *Brookings-Wharton Papers on Financial Services* Edited by R. Litan and R. Herring, (Washington, Brookings Institution Press), pp. 55-95.

Further Reading

Danzen, P.M., (1983), "An Economic Analysis of the Medical Malpractice System," *Behavioral Sciences and the Law*, 1 (1), pp. 15 1-175.

Sloan, F.A., et. al., (1989), "Medical Malpractice Experience of Physicians: Predictable or Haphazard?," *Journal of the American Medical Association*, 262, pps. 3291-3297.

14. The Economics of Vaccines

Required

*Pauly, Mark V., and B.E. Cleff, (1996), "The Economics of Vaccine Policy: A Summary of the Issues," in *Supplying Vaccine: An Economic Analysis of Critical Issues*, Washington: IOS Press, pp. 1-27.

*Sloan, Frank, et al, (December 2004), "The Fragility of the US Vaccine Supply," *NEJM*, 351:2443-2447, No.23

Further Reading

Arnould, R. and L. DeBrock, (1996), "The Application of Economic Theory to the Vaccine Market," in *Supplying Vaccine: An Economic Analysis of Critical Issues*, Washington: IOS Press, pp. 101-131.

IOM, Financing Vaccines in the 21st Century, National Academies Press, Washington, Executive Summary, pp. 1-20.