

INTRODUCTION TO HEALTH ECONOMICS

Economics 395, Section 3
Fall 200
MW 4 – 5:30 pm, Dennison 260

Professor: Helen Levy (hlevy@umich.edu)

Course goals: This course provides an overview of the economics of health and medical care. By the end of the quarter students should have the institutional knowledge and analytic tools needed to contribute to current public policy debates about health and medical care.

Prerequisites: At least one semester of introductory microeconomics.

Requirements and grading: Grades will be based on two midterm exams (20% and 30%) and a final exam (50%). The midterm exams will take place in class on Monday, Oct. 3 and Monday, Nov. 14. The final exam is scheduled for Thursday, Dec. 22, 8 – 10 am.

Problem sets and solutions will be distributed periodically throughout the course. These are not to be turned in. They are for you to do on your own.

Text: *A Health Economics Primer*, Shirley Johnson-Lans, Addison Wesley, 2006. Referred to in this syllabus as JL.

Additional readings: Additional readings, all of which are required, are listed below. The readings are available on the course web site. If you would like hard copies, a course packet containing the same material can be ordered at Dollar Bill copying (611 Church St.).

Office hours: Weds. 2 - 4, 218 Lorch, 763 - 9237

Week 1. Introduction

1. (Weds. 9/7) Course overview

JL ch. 1, “The Subject Matter of Health Economics”

Week 2. The demand for health and the demand for medical care

2.1 (M 9/12) The demand for health; the health production function; indifference curves; budget constraints

JL ch. 2, “The Demand for Health and the Demand for Health Care”

2.2 The economics of obesity (W 9/14)

David M. Cutler, Edward L. Glaeser and Jesse M. Shapiro, "Why Have Americans Become More Obese?" *Journal of Economic Perspectives* 17(3), Summer 2003, 93-118

Week 3: Health insurance

3.1 Insurance as a response to uncertainty; the effect of insurance on the demand for medical care; problems in insurance markets (M 9/19)

JL ch. 3, "The Nature of Health Insurance Markets"

JL ch 4, "The Evolution to Managed Care"

3.2 The RAND health insurance experiment (W 9/21)

Manning, Willard, Joseph Newhouse, Naihua Duan, et al., "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review* 1987; 77(3): 521-27.

Week 4: The supply of physicians and nurses

4.1 Medical training as an investment in human capital; markets for medical labor (M 9/26)

JL ch. 6, "Physicians and Nurses as Inputs into the Production of Health Care"

4.2 Medical education and the nursing shortage (W 9/28)

Newhouse, J. and G. R. Wilensky. "Paying for graduate medical education: the debate goes on," *Health Affairs*, March/April 2001; 20(2): 136-147.

Peter I. Buerhaus, Douglas O. Staiger, and David I. Auerbach. "Is The Current Shortage Of Hospital Nurses Ending?" *Health Affairs*, November/December 2003; 22(6): 191-198.

Week 5: Physicians as firms

5.1 Midterm #1 (M 10/3)

5.2 The market for physician services; imperfect competition; supplier-induced demand; medical malpractice (W 10/5)

JL ch. 7, "Physicians as Providers of Health Care"

Sage, William M.. “The Forgotten Third: Liability Insurance and the Medical Malpractice Crisis.” *Health Affairs*, July/August 2004; 23(4): 10-21.

Week 6: Hospitals

6.1 Hospitals as firms; more imperfect competition (M 10/10)

JL ch. 8, “Hospitals”

6.2 What does it mean that most hospitals are not-for-profit? (W 10/12)

Frank, Richard G. and David S. Salkever. “Nonprofit Organization in the Health Sector,” *The Journal of Economic Perspectives*, Vol. 8, No. 4. (Autumn, 1994), pp. 129-144.

Week 7: The value of medical care

7.1 No class – fall break (M 10/17)

7.2 Cost-benefit and cost-effectiveness analysis (W 10/19)

JL ch. 9, “Cost-Benefit and Cost-Effectiveness Analysis”

Week 8: Technology and the value of medical care, continued

8.1 Guest lecture by Dr. Gary Freed, Director of the Division of Pediatrics at U of M. (M 10/24)

8.2 Innovation; technological change; health care cost growth (W 10/26)

JL ch. 10, “The Role of Technology in Health Care”

Week 9: Increased medical spending: good or bad? And, pharmaceuticals.

9.1 What is the value of increased medical spending? (M 10/31)

Cutler, David M, Mark McClellan and Joseph P. Newhouse. “What Has Increased Medical-Care Spending Bought?” *The American Economic Review* Vol. 88, No. 2, Papers and Proceedings of the Hundred and Tenth Annual Meeting of the American Economic Association (May, 1998), pp. 132-136.

Newhouse, Joseph P. “Medical Care Costs: How Much Welfare Loss?” *The Journal of Economic Perspectives* Vol. 6, No. 3 (Summer, 1992), pp. 3-21.

9.2 Pharmaceuticals (W 11/2)

JL chapter 11, “Pharmaceuticals”

Week 10: Health and the labor market; Medicare

10.1 Health, wealth and the labor market (M 11/7)

Smith, James P. “Healthy Bodies and Thick Wallets: The Dual Relation between Health and Economic Status,” *The Journal of Economic Perspectives* Vol. 13, No. 2 (Spring, 1999), pp. 145-166.

10.2 Medicare (W 11/11)

JL ch. 5, “Social Insurance in the United States: Medicare and Medicaid”

Lee, Ronald and Jonathan Skinner, “Will Aging Baby Boomers Bust the Federal Budget?” *Journal of Economic Perspectives* 13 (1) Winter 1999, 117 – 140.

Week 11: Midterm & guest lecture

11.1 Midterm #2 (M 11/14)

11.2 Guest lecture by Pat Warner (Associate Hospital Director, The University of Michigan Hospitals and Health Centers and Chief Administrative Officer, C.S. Mott Children's Hospital)

Week 12: Smoking and drinking

12.1 Who bears the costs of smoking and drinking? Part 1: Smoking (M 11/21)

Manning, Willard et al., “The Taxes of Sin,” *Journal of the American Medical Association* 1989 (261:11), 1604 – 1609. (This reading is not available on the course web site; it will be distributed in class.)

12.2 Class cancelled for Thanksgiving (W 11/23)

Week 13: Smoking and drinking, continued

13.1 Who bears the costs of smoking and drinking? Part 2: Drinking (M 11/28)

13.2 Medicaid (W 11/30)

David M. Cutler and Jonathan Gruber. “Medicaid and Private Insurance: Evidence and Implications,” *Health Affairs*, January/February 1997; 16(1): 194-200.

Week 14: Problems of health and poverty at home and abroad

14.1 Health care reform in the US (M 12/5)

JL ch. 14, “The Health-Care System of the United States: Where Do We Go Next?”

14.2 Health problems in developing countries (W 12/7)

JL ch. 13, “Health Care: A Global Perspective”

Week 15: Conclusion

15.1 (M 12/12) Wrap-up: how does knowing economics help us to think about health?

Final exam: Thursday, Dec. 22, 8 – 10 am.

Updated 12/5/05