

## **HS M236 Health Economics**

UCLA School of Public Health  
Winter 2007

**Time:** Monday 9:00 – 12:00p  
**Class room:** TBD  
**Instructor:** Geoffrey Joyce, Ph.D.  
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**Office Hours:** Before/after each class and by appointment via email or phone

### **Course Description**

This course will use basic microeconomic principles to examine the determinants of health and the determinants of price and quantity of health care services. The first part of the course will focus on the consumer and his/her demand for health and health care services. We will pay particular attention to differences in health status and medical care utilization over time and across individuals. A key aspect of this section is the role of health insurance. Since health insurance is obtained primarily through employment, it has a significant impact on the behavior of both employers and employees. The second part of the course will examine the behavior of health care providers, i.e. the supply of health care. This section will include analyses of physician behavior, hospital services and the impact of the market structure on the delivery of health care. We will pay particular attention to the growth and impact of managed care, and the role of pharmaceuticals and the pharmaceutical industry. The last part of the class will examine distributional aspects of health, cost-effectiveness analysis in health care, and health care reform. We will examine some proposed reforms and the role of government in health care markets.

### **Course Objectives**

- 1) Review micro-economic theory and its application to health care;
- 2) Evaluate and analyze health care policies from a clinical, economic, and political perspective;
- 3) Understand the structure and functioning of health care markets.

Emphasis is placed on an analysis of the health services and health economics literature and the application of microeconomic principles to health status and health care markets. It is assumed that students have already completed an introductory course in microeconomics before enrolling in this class.

### **Course Schedule and Format**

Classes will consist of a combination of lectures, large group discussions, and student presentations. In general, the first part of each class will consist of a lecture, often reviewing key economic principles. We will then examine a specific policy issue and how economic theory supports or contradicts current policy.

## **Course Requirements and Grading**

The course requirements are as follows:

1. Assigned readings
2. Class participation and In-Class Presentation(s) (25%)
3. Midterm Exam (30%)
4. Final Exam (45%)

**Assigned Readings and Class Participation:** The assigned readings include the course textbook and additional readings from the literature. *Required reading should be done in advance of the class session for which it is assigned.* Class participation is essential since this is an applied course. Students will be expected to participate in all aspects of class discussions.

**In-Class Presentations:** For each discussion paper, there will be 1 presenter and 1 questioner. The presenter must send his/her slides to the questioner *at least two days in advance.* The questioner will then ask the presenter a series of questions that are not meant to stump the presenter, but to help flesh out key points of the article that were not addressed or discussed in sufficient detail. I will evaluate the questioner on how effectively their questions achieve this goal.

Some general guidelines: First, I want you to approach the presentation as if it were a professional setting and not a classroom full of peers. In other words, assume that you are presenting in front of professionals whom you don't know. Second, keep it brief. I would say that you should have no more than 6 slides. Third, try not to read off the monitor. Get out from behind the podium and speak to us.

Why such a format? I am trying to maximize your exposure and participation. The readings are the guts of the class. I want to be sure that as many of you as possible have read the article(s) before coming to class and can contribute to the discussion.

**Midterm Exam:** There will be a Midterm exam in late February/early March. Exact date and content will be discussed in advance.

**Final Exam:** There will be a take-home Final exam distributed during the last class of the semester, due 1 week later.

## **Assigned Readings**

There is one recommended textbook:

The Economics of Health & Health Care, 5<sup>th</sup> edition  
Sherman Folland, Allen Goodman, and Miron Stano  
Pearson / Prentice Hall

In addition to the textbook, there are required and recommended readings that I will distribute via email (in .pdf format). In addition, there may be supplemental readings assigned during the semester. Not all readings will be reviewed in class during the lectures.

In addition, the Kaiser Family Foundation produces a very good primer/reference on health care expenditures and the health care marketplace.

*Trends and Indicators in the Changing Health Care Marketplace, 2005*

The monograph can be downloaded for free at the following website address:

**<http://www.kff.org/insurance/7031/index.cfm>**

## READING LIST

Readings marked with an asterisk (\*) are required.

### I. INTRODUCTION

\*Levit K, Smith C, Cowan C, et al. "Health Spending Rebound Continues in 2002". *Health Affairs*, Jan/Feb 2004;23(1): 147-159.

\*Newhouse J. "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives*, 1992;6(3):3-22.

\*Smith JP. "Healthy Bodies and Thick Wallets: The Dual Relation Between Health and Economic Status," *Journal of Economic Perspectives*, Spring 1999;13(2):145-166.

Arrow K. "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, December 1963;53:941-973.

### II. REVIEW OF THE U.S. HEALTH CARE SYSTEM

\*Iglehart J.K., "The American Health Care System: Introduction," *New England Journal of Medicine*, 1992;326:962-967.

Iglehart J.K., "The American Health Care System: Private Insurance," *New England Journal of Medicine*, 1992;326:1715-1720.

Iglehart J.K., "The American Health Care System: Managed Care," *New England Journal of Medicine*, 1992;327:742-748.

Iglehart J.K., "The American Health Care System: Medicaid," *New England Journal of Medicine*, 1993;328(12):896-900.

### III. DEMAND FOR HEALTH

\*Fuchs V. "Time Preference and Health: An Exploratory Study," in Fuchs, V. (ed.) *The Economic Aspects of Health* Chicago: University of Chicago Press, 1982.

\*Kenkel D. "Health Behavior, Health Knowledge, and Schooling," *Journal of Political Economy* 1991;99(2):287-305.

#### **IV. DEMAND FOR MEDICAL CARE**

\*Newhouse J.P., Free for All: Lessons from the RAND Health Insurance Experiment, Cambridge, MA: Harvard University Press, 1993, Chapter 3, Total Annual Per-Person Expenditure pp. 3 – 28.

\*Newhouse J.P., Free for All: Lessons from the RAND Health Insurance Experiment, Cambridge, MA: Harvard University Press, 1993, Chapter 5, Specific Types of Use, pp. 338 - 371.

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

Pauly MV. "The Economics of Moral Hazard: Comment" *American Economic Review* 1968;58(3):531-537.

Welch B, et al., "The RAND Health Insurance Study: A Summary Critique" *Medical Care* 1987; 25(2):148-156.

#### **V. UNCERTAINTY & THE DEMAND FOR HEALTH INSURANCE**

\*Buchmueller TC and Feldstein, PJ. "Consumers' Sensitivity To Health Plan Premiums: Evidence From a Natural Experiment in California", *Health Affairs*, Spring 1996;15(1): 144-151.

\*Robinson JC et al. "Health Plan Switching in Anticipation of Increased Medical Utilization." *Medical Care*, 1993;31(1):43-51.

\*Nyman JA. Is Moral Hazard Inefficient? "The Policy Implications of a New Theory", *Health Affairs*, Sept/Oct 2004; 23(5):194-199.

\*Scanlon DP, Chernew M., and Lave JR, "Consumer Health Plan Choice: Current Knowledge and Future Directions", *Annual Review of Public Health*, 1997;18:507-528.

Feldman M, Finch B, Dowd S, et al. "The Demand for Employment-Based Health Insurance Plans." *Journal of Human Resources*, 1989;24(1):114-142.

Marquis S, Long S, "Worker Demand for Health Insurance in a Non-Group Market", *Journal of Health Economics*, 1995;46-63.

#### **VI. MARKET FOR PHYSICIAN SERVICES**

##### **A. Variation in Practice Patterns**

\*Chassin M. et al., "Variations in the Use of Medical and Surgical Services by the Medicare Population," *New England Journal of Medicine*, 1986;314(5):285-290.

\*Chassin M. et al., "Does Inappropriate Use Explain Geographic Variations in the Use of Health

Care Services? A Study of Three Procedures," *JAMA*, 1987;258(18):2533-2537.

Phelps CE. "Diffusion of Information in Medical Care." *Journal of Economic Perspectives*, 1992;6(3):23-42.

## **B. Physician-Induced Demand**

\*Rice T. The Economics of Health Reconsidered. Chicago, Health Administration Press, 1998. pp.107-115.

\*Newhouse JP. The Economics of Medical Care. Reading, MA, Addison Wesley, 1978. pp. 54-61.

\*Fuchs VR. "Physician-Induced Demand: A Parable," *Journal of Health Economics*, 1986; 5:367.

\*Phelps C., "Induced Demand: Can We Ever Know Its Extent?" *Journal of Health Economics*, 1985;5:355-365.

\*Rice T., "Induced Demand: Can We Ever Know Its Extent?--A Comment," *Journal of Health Economics*, 1987;6:375-376.

## **C. Financial Incentives**

\*Hillman A., et al., "How Do Financial Incentives Affect Physicians' Clinical Decisions and the Financial Performance of HMOs?" *New England Journal of Medicine*, 1989;317:1743-1748.

\*Escarce Jose, "Effects of Lower Surgical Fees on the Use of Physicians Services Under Medicare," *JAMA*, 1993;269(19):2513-2518.

## **VII. MARKET FOR HOSPITAL SERVICES**

\*Melnick GA, Zwanziger J, Bamezai A, and Pattison R. "The Effects of Market Structure and Bargaining Position on Hospital Prices," *Journal of Health Economics*, 1992;11:217-233.

\*Guterman SP, Eggers G, Riley T, et al. "The First 3 years of Medicare Prospective Payment: an Overview," *Health Care Financing Review*, 1988, 9, (3) 67ff.

Pauly M. "A Primer on Competition in Medical Markets" *Health Care in America*, pp. 27-71.

Garber A, Fuchs V, and Silverman, "Case Mix, Costs, and Outcomes: Differences Between Faculty and Community Services in a University Hospital," *New England Journal of Medicine*, 1984;310:1231-1237.

## **VIII. COMPETITION & HEALTH PLAN PERFORMANCE**

\*Enthoven A, “The History and Principles of Managed Care,” *Health Affairs*, 1993; Supplement:24-48.

\*Miller R, Luft H. “Managed Care Plan Performance Since 1980: A Literature Analysis,” *JAMA* 1994;271(19):1512-1519.

\*Robinson JC. “Consolidation of Medical Groups Into Physician Practice Management Organizations”, *JAMA*, 1998;279(2):144-149.

\*Newhouse JP. “Consumer-Directed Health Plans and the RAND Health Insurance Experiment” *Health Affairs*, 2004;23(6):107-113.

Zwanziger J. and Melnick G. “Can Managed Care Plans Control Health Care Costs?” *Health Affairs*, 1996;15(2):185-199.

Arnould R, Rich R, White W., Competitive Approaches to Health Care Reform, ed., The Urban Institute Press, Washington, DC. 1993; 1-48.

Chernew M, Hayward R, and Scanlon D. “Managed Care and Open-Heart Surgery Facilities in California.” *Health Affairs*, 1996;15(1):191-201.

Grumbach K, Anderson G, Luft H, Roos L, Brook R. “Regionalization of Cardiac Surgery in the United States and Canada”. *JAMA*, 1995;274:1282-1288.

## **IX. GOVERNMENT REGULATION OF UNHEALTHY BEHAVIORS**

\*Manning W, Keeler E, Newhouse J, Sloss E, and Wasserman J. “The Taxes of Sin: Do Smokers and Drinkers Pay Their Way?” *JAMA*, 1989; 261(11):1604-1609.

\*Gruber J. “Tobacco at the Crossroads: The Past and Future of Smoking Regulation in the United States.” *Journal of Economic Perspectives*, 2001;15(2):193-212.

\*Pronk NP, Goodman MJ, O’Connor PJ, and Martinson BC. “Relationship Between Modifiable Health Risks and Short-term Health Care Changes. *JAMA*, 1999;282(23):2235-2239.

## **X. DEMAND FOR PRESCRIPTION DRUGS & PHARMACEUTICAL INDUSTRY**

\*Scherer FM. “The Pharmaceutical Industry.” In Handbook of Health Economics, Volume 1, 1297-1336. A.J. Culyer and J.P. Newhouse, ed., 2000.

\*Berndt ER. “The U.S. Pharmaceutical Industry: Why Major Growth in Times of Cost Containment.” *Health Affairs*, 2001;20(2):100-114.

Joyce GF, Escarce JJ, Solomon M, Goldman, DP. "Effect of Prescription Drug Benefits on Spending". *JAMA*. 2002;288:1733-1739.

Angell M. The Truth About the Drug Companies. New York. Random House, 2004, pp.37-51.

\*Goldman DP, Joyce GF, Escarce JJ, et al. "Pharmacy Benefits and Use of Drugs by the Chronically Ill". *JAMA*. 2004; 291:2344-2350.