

ECONOMICS 140: ECONOMICS OF HEALTH PRODUCERS

Fall 2009, Center Hall 115, MWF 12:00-12:50

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Teaching Assistants

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Prerequisites: Econ 2 OR 100A

Assessment: There are two inclass midterm exams, **Monday, October 19th** and **Monday, November 9th**, each of which is worth 25% of your grade. The final exam is cumulative and is worth 50% of your grade. **The final is Thursday, December 10 from 11:30-2:30 pm**

Course Objectives: This course applies microeconomic theory to the health care market with a particular focus on the producers in the health care sector (physicians, nurses, hospitals, nursing homes, pharmaceutical firms, and researchers). We will examine current government policies, and proposed reforms of government policies, that affect health producers. Note: Econ 141 will focus on health consumers and examine the demand for medical care, demand for health insurance, issues involved in covering the uninsured, the predominance of employer-provided health insurance in the private sector and how this impacts the labor market, the impact of health on labor supply and cross country comparisons of health systems.

Course Materials

Required Readings: Articles on each topic are available on Web CT.

Web CT: This is where you access the syllabus, articles, problems sets, your grades, a discussion board, etc

Problem Sets: Posted on Friday and solutions available on WebCT the following Friday.

Administrative Issues:

- (1) Exams are closed book: you may not use any notes, electronic devices, books or consult other classmates. If you believe an exam has not been graded properly, you may ask for a re-grade. I will grade your entire exam. The re-graded score will be your grade for the exam. You may not ask for another re-grade or go back to your first grade.
- (2) Any student found guilty of academic dishonesty will earn a failing grade for the course. In addition to the academic sanction that I impose, the Council of Deans of Student

Affairs will impose a disciplinary penalty. For a review of UCSD policy, please see <http://www-senate.ucsd.edu/manual/appendices/app2.htm>.

- (3) If you have a documented disability, please bring your documentation and come to talk to me as soon as possible so that I can make suitable accommodations for you. If you believe that you may have a disability and will desire accommodation, please register with the Office for Students with Disabilities, Building 202 University Center

Class 1: 9/25 Why devote a whole course to the analysis of one market – the health market?

The Market for Transplant Organs.

Gary Becker and Julio Elias, “Introducing Incentives in the Market for Live and Cadaveric Organs” *Journal of Economic Perspectives*, Vol 21. No. 3, Summer 2007, p. 3-24.

Week 1: 9/28 U.S. Health Care System: Institutional Details, Empirical Regularities, and Current Policy Debates

The President’s Remarks to Joint Session of Congress on Health Care 9/19/2009

The Economic Case for Health Reform. Council of Economic Advisors, June 2009.

Goldhill, D. (September, 2009). “How American Health Care Killed my Father.” *The Atlantic*

Mankiw, Greg (11/4/2007), “Beyond those Health Care Numbers” New York Times

Week 2: 10/5 Accounting for the Rise in Medical Care Expenditures

Newhouse, Joseph P., “Rising Medical Care Costs: How Much Welfare Loss?” *Journal of Economic Perspectives*, Vol. 6 (3), 1992, pp. 3-21.

A. Increasing Health Insurance Coverage/Generosity? How Elastic is the Demand for Medical Care?

Manning, Willard G., Joseph P. Newhouse, Naihua Duan, Emmett B. Keeler and Arleen Leibowitz, (June 1987), “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment” *The American Economic Review*, Vol. 77, No. 3, pp. 251-277

Finkelstein, Amy, (2007) “The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare”. *Quarterly Journal of Economics*, 122(1): 1-37

B. Increasing Incomes in the US? What is the Income Elasticity of Demand for Health Spending?

Acemoglu, Daron, Amy Finkelstein, and Matthew Notowidigdo, (2009) “Income and Health Spending: Evidence from Oil Price Shocks.” NBER Working Paper 14744.

C. Technological Change in Health Care?

Cutler, David and Mark McClellan, (2001) "Is Technological Change Worth it?" *Health Affairs*, Vol. 20, No. 5, p. 11-29.

Cutler, David (1998) "Are Medical Prices Declining? Evidence from Heart Attack Treatments." *Quarterly Journal of Economics*, 113:4, pp991-1024.

Week 3: 10/12 Physician Supply

A. Decision to become a Physician: Costs and Benefits,

B. Physician Licensure: Quality Control or Monopoly Rents?

C. Asymmetric Information: Supplier Induced Demand?

Gruber, Jonathan and Maria Owings, "Physician Financial Incentives and Cesarean Section Delivery," *RAND Journal of Economics* (Spring, 1996)

Week 4: 10/19 MIDTERM 1, Monday, October 19

Market for Nurses

Hirsch, Barry T. and Edward J. Schumacher, "Classic or New Monopsony? Searching for Evidence in Nursing Labor Markets," *Journal of Health Economics*, July 2005

Week 5: 10/26 Incentives to provide the Efficient Medical Care Quality.

McGlynn EA, Asch SM, Adams J, et. al., "The Quality of Health Care Delivered to Adults in the United States." *New England Journal of Medicine*, 2003, 348: p. 2635-45.

A. Medical Malpractice

Brennan, Troyen A., Colin M. Sox, Helen R. Burstin, "Relation between Negligent Adverse Events and the Outcomes of Medical-Malpractice Litigation" *New England Journal of Medicine*, 1996; 335:p. 1963-7.

Currie, Janet and Bentley MacLeod (2008), "First Do No Harm? Tort Reform and Birth Outcomes," *Quarterly Journal of Economics*, Vol. 123, No. 2, p. 795-830.

Becker, Gary S. "How to Put the Right Cap on Punitive Damages" *Business Week*, New York: September 15, 2003.

B. Providing information about Quality to Consumers: Medical Report Cards

Dranove, David, Daniel Kessler, Mark McClellan, and Mark Satterthwaite, "Is more Information Better? The Effects of Report Cards on Health Care Providers" *Journal of Political Economy*, 2003, Vol. 111, No. 3: p. 555-588.

C. Pay for Performance

Mullen, Kathleen J., Richard G. Frank, Meredith B. Rosenthal, "Can You Get What You Pay for? Pay-for-Performance and the Quality of Healthcare Providers" NBER Working Paper No. w14886, April 2009.

Week 6: 11/2 The Pharmaceutical Industry

A. R&D and Incentives to Innovate

Weisbrod, Burton A., "Solving the Drug Dilemma" *Washington Post*, Op.Ed., August 22, 2003, A21

B. The FDA and Drug Safety and Efficacy

Becker, Gary S. "New Drugs Cut Costs and Medicare Can Help" *Business Week*, New York: March 22, 2004.

Becker, Gary S. "Get the FDA Out of the Way, and Drug Prices Will Drop" *Business Week*, New York: September 16, 2002.

C. Vaccines

Barder, Owen, Michael Kremer, and Heidi Williams, "Advance Market Commitments: A Policy to Stimulate Investment in Vaccines for Neglected Diseases" *Economists' Voice*, *Economists' Voice*, www.bepress.com/ev, February, 2006

Finkelstein, Amy, "Static and Dynamic Effects of Health Policy: Evidence from the Vaccine Industry" 2004, *Quarterly Journal of Economics* 119 (2): 527-564

Week 7: 11/9 Midterm 2, Monday, November 9
No Class Tuesday, Veterans Day

Managed Care

Aizer, Anna, Janet Currie and Enrico Moretti (2007), "Does Managed Care Hurt Health? Evidence from Medicaid Mothers," *The Review of Economics and Statistics*, Vol. 89, No. 3, p. 385-399.

Philipson, Tomas (2001), "Managed Care and the Quality of Care: A Misguided Debate?" *Journal of Legal Studies*, Vol. 30, No.2, pp. 753-758.

Manning, Willard G. et. al, "A Controlled Trial of the Effect of a Prepaid Group Practice on the Use of Services" *New England Journal of Medicine*, June 7, 1984.

Week 8: 11/16 Hospitals

Gaynor, Martin S. (2006) "What do we Know about Competition and Quality in Health Care Markets?" Prepared for the Federal Trade Commission.

Kessler, Daniel and Mark McClellan (2000), "Is Hospital Competition Socially Wasteful?" *Quarterly Journal of Economics* Vol. 115, No. 2, p. 577-615:

On Top of Tax Breaks, Nonprofit Hospitals Earn Big Profits. *Wall Street Journal* (4/4/2008)

Week 9: 11/23 Relationship between Medical Care and Health

Cutler, David, Angus Deaton, and Adriana Lleras-Muney, (2006) "Determinants of Mortality" *Journal of Economic Perspectives*, Vol. 20, No.3 p. 97-120

No Class Friday, Thanksgiving Holiday

Week 10: 11/30 Reducing the Costs of Medical Care

A. Increase Incentives to Provide Preventive Care?

Evaluation of Phase I of the Medicare Health Support Pilot Program Under Traditional Fee-For Service Medicare: 18 Month Interim Analysis (October 2008) Report to Congress prepared by Nancy McCall, Jerry Cromwell, Carol Urato and Donna Rabiner for the Center for Medicare and Medicaid Services..

B. Increase Health IT?

Hillestad, Richard, James Bigelow, Anthony Bower, et al., "Can Electronic Medical Record Systems Transform Health Care? Potential Health Benefits, Savings, and Costs," Health Affairs, 2005, Volume 24, No. 2, 1103-1117

Final Exam: December 10, 11:30-2:30pm