

## **ECONOMICS 140: ECONOMICS OF HEALTH PRODUCERS**

Summer 2016, HSS 2154, MW 12:30-3:30 pm

*Instructor:* Dr. Melissa Famulari

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Office: Econ 221

Office Hours: Thursday 12:30--2:30.

Prerequisites: Econ 2 OR 100B

*Course Objectives:* This course applies microeconomic theory to the health care market with a particular focus on the providers in the health care sector (physicians, nurses, hospitals, pharmaceutical firms, and health insurers). We will examine where markets work efficiently and where it may be possible for government intervention to improve efficiency. We will use microeconomic models to predict how proposals to reform the market for health care will affect the incentives of health care providers and outcomes in health care markets. Where possible, we will examine the empirical research that tests the predictions from economic models.

Note: Econ 141 focuses on the consumer side of the health market: the demand for health and medical care, the demand for health insurance, proposals to address the uninsured, employer provision of health insurance and the effects on worker wages and decision to work, and international comparisons of health systems.

### After passing this class you will be able to:

1. Apply microeconomics to the study of the suppliers in healthcare markets.
2. Analyze current policy issues in the U.S. healthcare system from an economic perspective. Our focus will be on policy issues associated with how Medicare, Medicaid, and private insurance plans pay healthcare providers, although we will also discuss health policy issues related to redistribution and social insurance.

*Assessment:* Your course grade will be based on a midterm exam, reading quizzes, a 6-page group paper, and a final exam worth 45% of your grade.

### *Exam Schedule:*

Midterm: Wednesday, July (in class; 34% of course grade)

Reading Quizzes: top 3 of 4 quizzes (worth 6% of course grade)

6-page group paper: 10% of grade.

Comprehensive Final Exam: July 29 (11:30-2:30, location TBD, 50% of course grade)

### *Group paper:*

I will assign you into groups of 3. Each group will choose a topic about health producers in the news. The paper will present the topic and analyze using economics. You will be graded on topic proposal (due July 6, 2%), first draft (due, 3%) and final paper (due Wednesday, 5%)

### *Course Materials:*

*TritonED:* This is where you access the syllabus, required articles, online quizzes, problems sets, your grades, a discussion board, announcements regarding review sessions, etc.

*Reading Quizzes:* Posted on TritonED after class and must be completed before 12:30pm the next

class. The only aid you can use are the assigned readings.

*Practice Problem Sets:* Posted on Friday and solutions available on TED the following Friday.

*Additional Review Materials:* Practice midterms and any additional practice exam questions will be posted on TritonED prior to the weekend preceding each exam.

*Administrative Issues:*

- (1) Exams are closed book: you may not use any notes, electronic devices, books or consult other classmates. To help maintain the integrity of the midterm and final, you must show your student ID when turning in your exam.
  - (2) Any student found responsible for violating academic integrity 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
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**Concise Course Overview:**

**Week 1:** Introduction: Why Study Markets for Health Care Services; What Makes Health Service Markets Unique?

The Allocation Question; How Do Physicians Respond to Incentives and How Should We Pay Them?

**Reading Quiz 1 due Wednesday.**

**Week 2: July 4<sup>th</sup> Holiday.**

Continuation of How Should We Pay Physicians

Assessing the Target Income and Cost-Shifting Hypotheses;

**Reading Quiz 2 due Wednesday.**

**Week 3:** Policy Issues Associated with the Affordable Care Act

Hospitals: Health Care Providers with Market Power; Economics of Non-Profit Firms

**Topic proposal due Monday  
Midterm Wednesday**

**Week 4:** Hospitals: Financing Hospital Care for the Uninsured; Competition on Price vs. Competition on Quality; Introduction to Health Care Innovation

Pharmaceutical Companies and Innovation in Medical Equipment and Devices

**Reading Quiz 3 due Monday.  
Paper draft due Wednesday**

**Week 5:** Medical Malpractice;

Further Discussion of Issues in Health Policy and Final Review

**Reading Quiz 4 due Monday.  
Paper due Wednesday.**

**Final Exam: Friday 7/29 from 11:30-2:30 pm**

## **Week 1 (June 27):**

### **Introduction: Why Study Markets for Health Care Services; What Makes Health Service Markets Unique?**

#### **Primary Topics:**

Overview of the Health Care Landscape  
Review of Consumer Demand  
Being Comfortable with Cost-Benefit Analysis  
Why We Buy Health Care through Insurance  
Review of Supply by Competitive Firms (Physicians?)  
The Decision to Become a Physician  
Choice of Specialty and Where to Practice

#### **Readings:**

- Victor R. Fuchs, "Health Care Is Different—That's Why Expenditures Matter," *JAMA*. 2010;303(18):1859-1860. (Available on pages 21-23 at [http://siepr.stanford.edu/?q=/system/files/shared/pubs/papers/pdf/More\\_Healthcare.pdf](http://siepr.stanford.edu/?q=/system/files/shared/pubs/papers/pdf/More_Healthcare.pdf))
- Baicker, Katherine, and Amitabh Chandra. "Myths and misconceptions about US health insurance." *Health Affairs* 27.6 (2008): w533-w543. (Available here: <http://content.healthaffairs.org/content/27/6/w533.full.pdf+html>)
- DeZee KJ, Maurer D, Colt R, Shimeall W, Mallory R, Powers J, Durning SJ. "Effect of financial remuneration on specialty choice of fourth-year U.S. medical students." *Acad Med*. 2011 Feb; 86(2):187-93. (Available here: <http://www.ncbi.nlm.nih.gov/pubmed/21169785>)

### **The Allocation Question; How Do Physicians Respond to Incentives and How Should We Pay Them?**

#### **Primary Topics:**

Issues of Allocation:  
    Organ markets,  
    Markets for predictable services  
    Markets for uncertain services  
The Physicians' Utility Function  
A Model of Optimal Payment Policy: Salary vs. Fee-For-Service  
Complications for Payment Policy  
How Does Medicare Stack Up?  
Paying for Capital and Technology Intensive Services

#### **Readings:**

- Becker, Gary 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. (Available here: <http://www.aeaweb.org/articles.php?doi=10.1257/jep.21.3.3&title=>)

- Mark Hogland. "How Does Your Doctor Get Paid?" (Available here: <http://www.pbs.org/wgbh/pages/frontline/shows/doctor/care/capitation.html>)
- Jeffrey Clemens. "Implications of Physician Ethics, Billing Norms, and Service Cost Structures for Medicare's Fee Schedule." (Available here: [http://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=706192](http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=706192))
- Gawande, Atul. "Overkill" The New Yorker, May 11, 2015 (Available here: <http://www.newyorker.com/magazine/2015/05/11/overkill-atul-gawande>)
- Center for Medicare and Medicaid Services. "Evaluation and Management Services Billing Guide." April 2013. (Available here: <https://www.medicarenhic.com/providers/pubs/REF-EDO-0056%20EvaluationManagementServicesBillingGuide.pdf>)
  - Note: Do not read this document in its entirety! This document is worth perusing if you want a taste for the complexity of Medicare's billing guidelines.

## Week 2 (July 6) July 4<sup>th</sup> Holiday

### How Should We Pay Physicians: Assessing the Target Income and Cost-Shifting Hypotheses;

#### Primary Topics:

Review of Optimal Payment Policy  
 Supplier-Induced-Demand  
 The Target Income Hypothesis  
     Labor Supply Interpretation  
     Short Run vs. Long Run  
     Billing Norms Interpretation  
 The Cost-Shifting Hypothesis  
     Bargaining Over Physicians' Time  
     Medicare's Influence on Private Payment Systems  
 Empirical Evidence

#### Readings:

- McGuire, Thomas G., and Mark V. Pauly. "Physician response to fee changes with multiple payers." *Journal of health economics* 10.4 (1991): 385-410. (Available here: <http://www.sciencedirect.com/science/article/pii/016762969190022F>)
  - Focus on the Introduction and Section 4. The remaining sections are quite technical.
- Clemens, Jeffrey, and Joshua Gottlieb. "Do Physicians' Financial Incentives Affect Medical Treatment and Patient Health?." (2014). (Available here: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2101251](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2101251)).
  - Focus on the Introduction and Section 1. The introduction describes the paper's findings. Section 1 provides some detail regarding how Medicare pays physicians.

### **Week 3 (July 11) Midterm on Wednesday**

#### **Start Hospitals: Health Care Providers with Market Power; Economics of Non-Profit Firms**

##### **Primary Topics:**

Overview of Hospital Sector  
What Motivates Hospitals?  
Kindly Non-Profits?  
Standard Monopolists?  
The Hold-Up Problem

##### **Readings:**

- Brill, Steven. "Bitter pill: why medical bills are killing us." *Special report TIME magazine*, (Mar. 04, 2013) (2013). (Available here: [https://www.nesri.org/sites/default/files/Bitter\\_Pill-Time\\_Magazine.pdf](https://www.nesri.org/sites/default/files/Bitter_Pill-Time_Magazine.pdf))
  - Read through at least 2 of the anecdotes to get a flavor for the article.

### **Week 4 (7/18):**

#### **Hospitals and the Economics of Non-Profit Firms**

##### **Primary Topics:**

Hospital Costs in the U.S. and Abroad  
Prices and Quantities  
Administrative Overhead  
How We Pay Hospitals  
Financing Hospital Care for the Uninsured  
Competition on Price vs. Competition on Quality

##### **Readings:**

- Duggan, Mark. "Hospital ownership and public medical spending." *Quarterly Journal of Economics*. 15(4): 1343-1373.
- Dafny, Leemore S. *How do hospitals respond to price changes?*. *American Economic Review*. 95(5):1525-1547. 2005. (Available here: <http://www.ingentaconnect.com/content/aea/aer/2005/00000095/00000005/art00009>)
- Cutler, David M., and Dan P. Ly. "The (paper) work of medicine: understanding international medical costs." *The Journal of Economic Perspectives* 25.2 (2011): 3-25. (Available here: <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.2.3>)

#### **Demand for Nurses When Employers Have Monopsony Power; Introduction to Health Care Innovation**

##### **Primary Topics:**

Demand for Nurses  
The Advance of Health Care Innovation  
Health Gains  
Rising Costs  
Pharmaceutical Innovation  
The Decision to Invest in R&D  
Patent Law and Monopoly Pricing  
Drugs for Developing Countries

**Readings:**

- Kremer, Michael. "Pharmaceuticals and the developing world." *The Journal of Economic Perspectives* 16.4 (2002): 67-90. (Available here: <http://www.jstor.org/stable/3216915>)
- Cutler, David M., Allison B. Rosen, and Sandeep Vijan. "The value of medical spending in the United States, 1960–2000." *New England Journal of Medicine* 355.9 (2006): 920-927. (Available here: <http://www.nejm.org/doi/full/10.1056/NEJMsa054744>)

**Week 5 (7/25)**

**Innovation Continued;**

**Primary Topics:**

The Difficulty of Evaluating Technology Policy  
Innovation in Medical Equipment and Devices  
Empirical Evidence on Innovation  
Pharmaceutical Sector  
Medical Equipment  
Payment Policy and the Nature of Innovation  
Implications of the ACA for Innovation

**Readings:**

- Roberts, EDWARD B. "Technological innovation and medical devices." *New medical devices: invention, development, and use* (1988): 35-51.
  - This article appears as a chapter in a book. The relevant pages (35-51) can be accessed via google books by searching for the article title from the "Google Scholar" home page. The chapter provides an excellent discussion of what medical device innovation looks like and how it differs from pharmaceutical innovation.
- Jeffrey Clemens and Stan Veuger. "Innovation and Uncertainty in the Medical Industry: Evidence form the Case of Myriad Genetics, Inc." Available here: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2576481](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2576481)

**Quality of Care**

## Primary Topics

Evidence on the Quality of Care  
Information Problems and the Quality of Care  
Effects of Providing Information to Consumers

## Readings

- 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. Available here: <http://www.nejm.org/doi/pdf/10.1056/NEJMsa022615>
- 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. Available here: <http://www.jstor.org/stable/10.1086/374180>

**Final Exam: Friday, July 29, 11:30-2:30pm**