

ECONOMICS 140: ECONOMICS OF HEALTH PRODUCERS

Summer 2018, HSS 1106B, MW 2-4:50 pm

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Office: Econ 221

Office Hours: MW 5-6:30pm

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 (40% of your grade), on-line reading via Perusal (8% of your grade), in-class responses (10% of your grade), and a final exam worth 50% of your grade.

Exam Schedule:

Midterm: Thursday, July 3 (in class; 40% of course grade)

Perusal Score: 8% of course grade

Class participation: 1% on responding and 1% on correctness.

Comprehensive Final Exam: Friday, August 3, 3-6:00p (50% of course grade)

Course Materials:

TritonED: This is where you access the syllabus, required articles, problems sets, your grades, a discussion board, announcements, etc.

Perusal: <https://app.perusall.com> FAMULARI-3519 is our class code. There is no required textbook for this class (at near \$300, way too expensive). Instead we will be reading journal articles. NOTE: misuse of Perusall -- for example, posting comments as your own that are copied from the text or from external web sites -- will be treated as every other type of academic misconduct.

Practice Problem Sets: Posted on Friday and solutions available on TritonEd 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: NO CLASS WEDNESDAY July 4

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?

Week 2: Continuation of How Should We Pay Physicians

Assessing the Target Income and Cost-Shifting Hypotheses;

Week 3: Policy Issues Associated with the Affordable Care Act

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

Midterm 1, Thursday, July 19.

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

Week 5: Long-Term Care and Provider Incentives.

Further Discussion of Issues in Health Policy and Final Review

Final Exam: Friday, August 3, 3-6:00pm

Week 1: 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. (<http://jamanetwork.com/journals/jama/article-abstract/185819?resultClick=1>)
- 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)
- 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: 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).
 - Focus on the Introduction and Section 1. The introduction describes the paper’s findings. Section 1 provides some detail regarding how Medicare pays physicians.
- Fang, Hanming and Qing Gong. “Detecting Potential Overbilling in Medicare Reimbursements via Hours Worked” *American Economics Review* 107(2) (2017):562-591. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20160349>

- Focus on the introduction, section 2 (which provides some detail on how Medicare pays physicians), and figure 1.
- Finkelstein, Amy, Matthew Gentzkow, Peter Hull and Heidi Williams, “Adjusting Risk Adjustment — Accounting for Variation in Diagnostic Intensity.” (2017) *New England Journal of Medicine*; 376:608-610
<http://www.nejm.org/doi/full/10.1056/NEJMp1613238?query=TOC>

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)
 - Read through at least 2 of the anecdotes to get a flavor for the article.

Week 3: MIDTERM 1 on Wednesday May 3

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>)
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- 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 4: 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 from the Case of Myriad Genetics, Inc.” Available here: 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>

Week 5: Long-Term Care

Primary Topics

Post-acute care
Evidence on the Optimality of Provider Incentives

Readings:

Einav, Liran, Amy Finkelstein and Neale Mahoney. “Provider Incentives and Healthcare Costs: Evidence from Long-Term Care Hospitals NBER #23100. Available here: http://papers.nber.org/papers/W23100?utm_campaign=ntw&utm_medium=email&utm_source=ntw Focus on the Introduction, Sections 2.1 and 2.2., Figures 1-7.

Discussion of Issues in Health Policy and Final Review

Morrissey, Michael, A. and Leonard Davis. “Turmoil in the Health Insurance Market Places” ACA Impact Series Penn LDI, Oct. 2016 (Vol. 21, No. 1)

McMorrow, Stacey and Daniel Polsky. “Insurance Coverage and Access to Care under the Affordable Care Act” ACA Impact Series Penn LDI, Dec. 2016 (Vol. 21, No. 2)

Weiner, Janet, Clifford Marks, and Mark Pauly. “Effects of the ACA on Health Care Cost Containment” ACA Impact Series Penn LDI, Feb 2017 (Vol. 21, No. 4)

Final Exam: Friday, August 3, 3-6:00pm