

ECONOMICS 141: ECONOMICS OF HEALTH CONSUMERS

Spring 2010, MWF 1:00 - 1:50 pm, Center Hall room 119

Instructor: Dr. Melissa Famulari
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Office: Economics Bldg, 221
Office Hours: Tuesdays 11-1:30

Teaching Assistants:

(1) Ben Backes

Office: Econ 119
Office Hrs: Mondays 9-11:00 am

(2) Denise Hammock

Office: Econ 112
Office Hrs: Thursday 1-3:00 pm

(3) Matthew Niedzwiecki

Office: Econ 123
Office Hrs: Thursday 9-11:00 am

Prerequisites: Econ 100B

Assessment: There are two inclass midterm exams, **Monday, April 19th** and **Wednesday, May 12th**, each of which is worth 20% of your grade. The final exam is cumulative and is worth 60% of your grade. The final is **Thursday June 10, 11:30 a.m. – 2:30 p.m.**

Course Objectives: This course will examine the health care sector and health policy from an economic perspective. The focus of this course will be on the consumer side of the health market: the demand for medical care, the demand for health insurance, proposals to address the uninsured, employer provision of health insurance and the effects on worker wages, the decision to change jobs and retirement, estimating the value of a life and the value of health improvements, demand for medical care when there are both time and money costs, and international comparisons of health systems. Note: 140 focuses on the suppliers of medical care (physician, nurses, hospitals, medical malpractice and the provision of the efficient quality of care, the pharmaceutical industry).

Course Materials

Required Readings: Required reading are listed below and are available on WebCT.

Web CT: This is where you access the syllabus, class handouts, additional readings, your grades, a discussion board, etc.

Administrative Issues:

- (1) Exams are closed book and electronic free: you may not use any notes, electronic devices, books or consult other classmates.
- (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 there is a mistake adding points on your exam, bring it to my attention and I will correct it immediately. If you believe an exam has not been graded properly, you may

ask for a regrade within a week of the exam being returned. I will regrade your entire exam. The regraded score will be your grade for the exam. You may not ask for another regrade or go back to your first grade.

- (4) If you have a documented disability, bring your documentation 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 as soon as possible. For information on the steps for academic accommodation, please see <http://www-senate.ucsd.edu/manual/appendices/app3.htm>.

Week 1: 3/29 Demand for Health and Medical Care

Grossman, Michael "On the Concept of Health Capital and the Demand for Health," *Journal of Political Economy*, Vol. 80, no. 2, March 1972, p. 223-255.

Cutler, David and Adriana Lleras-Muney, "Education and Health: Evaluating Theories and Evidence," NBER Working Paper #12352, June 2006.

Lleras-Muney, Adriana "The Relationship between Health and Adult Mortality in the US" *Review of Economic Studies*, 2005, Vol. 72, 189-221.

Week 2: 4/5 Uncertainty, Risk Aversion, and the Demand for Insurance

Arrow, Kenneth, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, Vol. LII, December 1963, 941-973.

Friedman, Milton and James Savage, "The Utility Analysis of Choices Involving Risk," *Journal of Political Economy*, August 1948, Vol LVI, no. 4, 279-304.

To reduce risk, one can purchase insurance, obtain additional information, or diversify.

Week 3: 4/12 Insurance with Asymmetric Information (hidden characteristics or actions)

I. Moral Hazard:

- A. Is Moral Hazard important in the Market for Medical Care? How Responsive is the Demand for Medicine to a Reduction in Price?

Manning, Willard, et. al, "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, June 1987, 251-277.

Finkelstein, Amy and Robin McKnight, "What did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending," *Journal of Public Economics* 92, July 2008, 1644-1668.

Michael, Anderson, Carlos Dobkin, and Tal Gross, "The Effect of Health Insurance Coverage on the Use of Medical Services," NBER Working paper 15823.

- B. Possible Responses to Moral Hazard: Coinsurance and Deductibles

Gruber, Jonathan, "The Role of Consumer Copayments for Health Care: Lessons from the Rand Health Insurance Experiment and Beyond" Kaiser Family Foundation, 2006, p. 1-15.

II. Adverse Selection:

A. Is Adverse Selection Important in the Market for Medical Care?

Cutler, David M. and Sarah J. Reber, "Paying for Health Insurance: the Tradeoff between Competition and Adverse Selection." *Quarterly Journal of Economics*, May 1998, pp. 433-466.

Finkelstein, Amy and Kathleen McGarry, "Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market," *The American Economic Review*, Vol. 96, No. 4 (Sep., 2006), pp. 938-958

B. Possible Responses: screen purchasers by offering selected price-quantity contracts, group insurance, compulsory insurance, require disclosure of private information.

Week 4: 4/19 Midterm 1 on Monday 4/19

How many people are Uninsured?

Covering the Uninsured:

A. Expansions of Social Insurance

Gruber, Jonathan and Simon, Kosali Ilayperuma, "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Insurance?" NBER Working Paper Series, Vol. w12858, pp. -, (January 2007).

Week 5: 4/26 Covering the Uninsured (continued)

B. Employer vs Individual Mandates

Krueger, Alan B. and Uwe E. Reinhardt, "The Economics of Employer versus Individual Mandates," *Health Affairs*, Spring II, 1994, pp. 34-53.

Employer Provision of Health Insurance

Gruber, Jonathan, "Tax Exclusion for Employer-Sponsored Health Insurance" NBER Working Paper Series, #15766, February 2010.

Week 6: 5/10 Employer Provision of Health Insurance: Effects on Labor Supply and the Decision to Change Jobs and to Retirement.

Gruber, Jonathan and Brigitte Madrian, "Health Insurance, Labor Supply and Job Mobility: A Critical Review of the Literature" NBER Working Paper Series, #8817, March 2002.

Week 7: 5/17 Midterm 2: Wednesday, May 12th

Week 8: 5/24 Placing a Value on Life and Determining the Value of Health Improvements

Bloomquist, Glenn C. "Value of Life, Economics of" *International Encyclopedia of the Social and Behavioral Sciences*, Pergamon Press, 2001.

Murphy, Kevin M. and Robert H. Topel, "The Value of Health and Longevity" *Journal of Political Economy*, 2006, vol. 114, no. 5, p. 871-904.

Becker, Gary, Tomas Philipson and Rodrigo Soares, "The Quantity and Quality of Life: The Evolution of World Inequality" *The American Economic Review* Vol. 95, No. 1, March 2005, p. 277-291.

Week 9: 5/31 **International Comparisons**

Anderson, Gerard F. and Jean-Pierre Poullier, "Health Spending In OECD Countries: Obtaining Value Per Dollar," *Health Affairs*, 27, no. 6 (2008): 1718-1727

Preston, Samuel and Jessica Ho, "Low Life Expectancy in the U.S.: Is the Health Care System at Fault?" University of Pennsylvania Working Paper (2009)

O'Neil, June and Dave O'Neil, "Health Status, Health Care and Inequality: Canada vs. the US." *Forum for Health Economics and Policy*, 2007, vol. 10, no. 1, p. 1-43.

Banks, James, Michael Marmot, Zoe Oldfield, and James Smith, "Disease and Disadvantage in the US and England." *Journal of the American Medical Association*, 2006, col. 295, no. 17, p. 2037-2045.

Martin, S and PC Smith, "Rationing by Waiting Lists: An Empirical Investigation," *Journal of Public Economics*, (1999)

Week 10: 5/31 **Monday: Memorial Day Observed**

Wrap up and Review

Final Exam: Thursday June 10, 11:30 a.m. – 2:30 p.m