

Amherst College
Department of Economics
Economics 40
Spring 2008

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ECONOMICS 40: HEALTH ECONOMICS AND POLICY

Health care poses many pressing public policy issues: Why do we spend so much on health care? Does it actually produce significantly better health? What is the appropriate role of government? Should the U.S. have a system of national health insurance? The study of health economics provides insight into these questions. In this course, we will start by assessing the important role of health care in the national economy (health care costs exceed 15% of the Gross Domestic Product of the United States) and by applying economic models to the production of health and health care. We will then study the structure of the health care market and the role of key institutions. Next, we will devote substantial time to the role of government, placing emphasis on the status of the uninsured population and on public provision of care to the disadvantaged. Finally, we will use this acquired knowledge to consider possibilities for national health care reform and to discuss the relative merits of current state reform efforts. Throughout this analysis, we will pay particular attention to the nature of health care markets, the anatomy of market failures, and the implications for current policy. Empirical results, current issues, and public policy will be discussed throughout the course.

Readings and Resources

Main text: *Health Economics: Theories, Insights and Industry Studies*, 4th ed., Rexford E. Santerre & Stephen P. Neun, South-Western: Thomson Learning. Available at the Jeffrey Amherst College Bookstore. (The 3rd edition is also acceptable.)

Second book: *Your Money or Your Life*, David Cutler, Oxford University Press, 2004. You should read the entire book before the semester starts, and reread chapters as indicated. Available at the Jeffrey Amherst College Bookstore.

Reading packet: a reading packet (also required) is available for purchase at Collective Copies.

Course website: on the CMS. This website will contain copies of the syllabus, problem sets, and other class materials. Please check it regularly for announcements.

Assignments and Grading

Reading: All reading is required and should be completed *before* the class in which it will be discussed.

Exams: There will be two in-class hour exams. Likely dates are shown in the outline below.

Papers: There will be one final project due near the end of the semester.

Problem Sets: There will be approximately 3 problem sets or short papers during the semester.

Grades: For the final course grade, assignments will be weighted as follows: Each exam will count for 25%; the final project will count for 30%; problem sets and class participation will count for 20%.

Notes: All reading is required and all assignments must be turned in on time. Late work will not be accepted, nor will make-up exams be given. Students are expected to do the reading, attend class, and participate.

Prerequisites

Economics 11 is a prerequisite for this course. No exceptions will be made.

Course Outline

Part 1. Health Care Tools and Institutions

- Introduction to Health Economics and Policy
- Health and Medical Care
- Cost-Benefit Analysis
- Health Care Systems and Institutions
- Demand for Medical Services
- Demand for Medical Insurance

Exam 1 (~February 28)

Part 2. Industries, Insurance, and the Uninsured

- Industrial Organization Framework
- Private Health Insurance Industry
- Managed Care
- The Uninsured
- Physician Services
- Hospital Services

Exam 2 (~April 8th)

Part 3. Government and Reform

- Government in Health Care
- Medicaid and SCHIP
- Medicare
- Health Care Reform

Final Project (~May 8th)

Detailed Course Outline and Readings

Part 1. Health Care Tools and Institutions

- Introduction to Health Economics and Policy
 - S & N Chapter 1: Introduction
 - Cutler Introduction: Crisis By Design
 - Cutler Chapter 1: The Health of the Nation: A History
 - Musgrave, Gerald L. "Health Economics Outlook: Two Theories of Health Economics." *Business Economics*, April 1995, pp. 7-13.

- Health and Medical Care
 - S & N Chapter 2: Health and Medical Care
 - Belluck, Pam, "Children's Life Expectancy Being Cut Short by Obesity," *New York Times*, March 17, 2005.
 - Urbina, Ian, "In the Treatment of Diabetes, Success Often Does Not Pay," *New York Times*, January 11, 2006.

- Cost-Benefit Analysis
 - S & N Chapter 3: Cost and Benefit Analysis
 - Cutler Chapter 2: Pricing the Priceless
 - "Psst, wanna buy a kidney?" *The Economist*, November 16, 2006.
 - Satel, Sally, "Desperately Seeking a Kidney," *New York Times*, December 16, 2007.

- Health Care Systems and Institutions
 - S & N Chapter 4: Health Care Systems and Institutions
 - Cutler Chapter 7: You Get What You Pay For

- Demand for Medical Services
 - S & N Chapter 5: Demand for Medical Services
 - Smith, James, "Healthy Bodies and Thick Wallets: The Dual Relation Between Health and Economic Status", *Journal of Economic Perspectives*, 13(2), Spring 1999, 145-166.
 - Minkler, Meredith, Esme Fuller-Thomson, and Jack M. Guralnik, "Gradient of Disability across the Socioeconomic Spectrum in the United States," *New England Journal of Medicine*, 355(7), August 17, 2006.
 - Scott, Janny, "Life at the Top in America Isn't Just Better, It's Longer," *New York Times*, May 16, 2005.

- Demand for Medical Insurance
 - S & N Chapter 6: Demand for Medical Insurance
 - Manning et al. "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, 77(3), June 1987, pp. 251-77.

Part 2. Industries, Insurance, and the Uninsured

- Private Health Insurance Industry
 - S & N Chapter 11: The Private Health Insurance Industry
 - Iglehart, John K., “Changing Health Insurance Trends”, *New England Journal of Medicine*, 347(12), September 19, 2002, 956-62.

- Managed Care
 - Cutler Chapter 8: The Managed Care Debacle
 - Dudley, R. Adams and Harold Luft, “Managed Care in Transition,” *New England Journal of Medicine*, 344(14), April 5, 2001.

- The Uninsured
 - Institute of Medicine, *Hidden Costs, Value Lost: Uninsurance in America*, Washington, D.C.: National Academy Press, Executive Summary, pp. 1-11, June 2003
 - The Kaiser Commission on Medicaid and the Uninsured, “The Uninsured: A Primer,” *Kaiser Family Foundation*, October 2007.
 - Pear, Robert, “Without Health Benefits, a Good Life Turns Fragile,” *New York Times*, March 5, 2007.

- Physician Services Industry
 - S & N Chapter 12: The Physician Services Industry
 - Cutler Chapter 9: Paying for Health

- Hospital Services
 - S & N Chapter 13: The Hospital Services Industry (first part of chapter)

Part 3. Government and Reform

- Government in Health Care
 - S & N Chapter 9: Government, Health and Medical Care
 - Cutler, David M. “Public Policy for Health Care” in Alan Auerbach, ed., *Fiscal Policy: Lessons From Economic Research*, Cambridge, MA: MIT Press, 1997, 159-198.

- Medicaid and SCHIP
 - S & N Chapter 10: Government as Health Insurer, pp. 265-272 (Medicaid)
 - Rosenbaum, Sara, “Medicaid”, *New England Journal of Medicine*, 346(8), February 21, 2002, pp. 635-40.
 - John K. Iglehart, “Medicaid Revisited – Skirmishes over a Vast Public Enterprise,” *New England Journal of Medicine*, 356(7), February 15, 2007, pp. 734-740.
 - Gruber, Jonathan, “Medicaid,” *Means Tested Transfer Programs in the United States*, Robert Moffitt, ed., Cambridge, MA: MIT Press, 2003.
 - Iglehart, John K., “The Battle over SCHIP,” *New England Journal of Medicine*, 357(10), September 6, 2007, pp. 957-960.
 - Iglehart, John K., “The Fate of SCHIP – Surrogate Marker for Health Care Ideology?” *New England Journal of Medicine*, 357(21), November 22, 2007, pp. 2104-2107.

- Medicare
 - S & N Chapter 10: Government as Health Insurer, pp. 272-288 (Medicare)
 - Moon, Marilyn, “Medicare,” *New England Journal of Medicine*, 344(12), March 22, 2001, pp. 28-31.
 - Iglehart, John K., “The New Medicare Prescription Drug Benefit – A Pure Power Play,” *New England Journal of Medicine*, 350(8), February 19, 2004, pp. 826-833.

- Health Care Reform
 - S & N Chapter 16: Health Care Reform
 - Schroeder, Steven A. “Prospects for Expanding Health Insurance Coverage”, *New England Journal of Medicine*, 344(11), March 15, 2001, 847-852.
 - Fuchs, Victor, “National Health Insurance Revisited,” in Fuchs, *The Future of Health Policy*, Cambridge, MA: Harvard University Press, 1993, Chapter 14, 204-217.
 - Cutler Chapter 10: Universal Benefits
 - Feldstein, Martin, “Balancing the Goals of Health Care Provision,” public address, American Society of Health Economists Luncheon, American Economic Association Annual Meeting, Boston, Massachusetts, January 7, 2006.
 - Blendon, Robert J., Mollyann Brodie, and John Benson, “What Happened to Americans’ Support for the Clinton Health Plan?” *Health Affairs*, 14(2), Summer 1995, 7-23.
 - Blendon, Robert J. and John M. Benson, “Americans’ Views On Health Policy: A Fifty-Year Historical Perspective,” *Health Affairs*, March - April, 2001.
 - Toner, Robin and Janet Elder, “Most Support U.S. Guarantee of Health Care,” *New York Times*, March 2, 2007.