

ECON 372W: HEALTH POLICY AND ECONOMICS

FALL 2014

PROFESSOR: Ian McCarthy

CLASS: MWF 2:00 – 2:50pm

ROOM: Rich 211

OFFICE: Rich 319

OFFICE HOURS: MF 12:30 – 2:00pm

EMAIL: ian.mccarthy@emory.edu

Course Description

This course examines the fragmented structure of the U.S. health care system and its economic implications. We will study how people make decisions regarding their health insurance and health care, and the relationship between these decisions and the structure of the insurance and health care delivery markets. We will also examine the theoretical reasons for government intervention in these markets and the effects of these policies on health insurance and health care delivery. The broad objectives of the class are to understand and appreciate the difficulties of making health insurance and health care decisions in the U.S. health care system, and how these decisions are impacted by insurance and health care provider market structure as well as government policy.

Prerequisites: Economics 101 (Principles of Microeconomics)

Text and Other Materials

There will be two required texts (Emanuel, 2014; Reid, 2010) and two optional texts (Angrist & Pischke, 2009; Pindyck & Rubinfeld, 2009). The optional texts are purely for reference purposes in microeconomic theory and econometrics, respectively. These topics will be briefly reviewed in class as necessary. Copies of the optional Angrist & Pischke (2009) and Pindyck & Rubinfeld (2009) texts will also be made available in the reserve room of the Woodruff Library for reference purposes. Additional required readings include (not in this order) Abaluck & Gruber (2011); Abraham *et al.* (2007); Aron-Dine *et al.* (2013); Arrow (n.d.); Baicker *et al.* (2013); Bresnahan & Reiss (1991); Chernew *et al.* (2010); Cutler & McClellan (2001); Dafny & Dranove (2008); Dafny (2010); Finkelstein *et al.* (2012); Gruber & Simon (2008); Hibbard *et al.* (1998); Huckfeldt *et al.* (2013); Madrian (1994); McGuire

(2011); Skinner *et al.* (2006); Stabile & Thomson (2014); Town & Liu (2003). These readings are mostly journal articles accessible for no charge through the Emory library. All necessary readings for each class will be announced in advance, and the full cites are provided below.

Course Outline

The course will consist of three general topics, ordered so as to “follow” an individual through the health care delivery process. The course is intended to adopt the vantage point of an individual faced with certain health care decisions (e.g., which insurance plan to choose, where to receive some treatment, and how to pay your bills).

1. Insurance choice in the employer-sponsored market, the individual insurance market (exchanges), Medicaid, and Medicare. Our discussion of insurance choice will highlight several important economic concepts, including issues related to information and behavioral economics, risk aversion, adverse selection, and moral hazard.
2. Choice of physicians and hospitals. Our discussion of provider choice will highlight the prevalence of asymmetric information in health care delivery and its implications for price and quantity of care received. We will also discuss the role of the physician/hospital relationship (e.g., physicians as employees of the hospital or as private practices), the role of hospital ownership type (e.g., for-profit, not-for-profit, or physician-owned), and the relationship between competition in the health care delivery markets and quality, prices, and costs.
3. Paying the bill. We will discuss the differences between costs, charges, and reimbursement, as well as how prices for health care are determined. Our discussion will briefly touch on the role of negotiations between insurers and providers and the existing policies governing Medicare and Medicaid reimbursements. Finally, we will discuss the impact of large medical bills on personal finances and the increasing prevalence of medical bankruptcy.

The general content for each week and each class is presented in more detail below:

Expectations

The course is designed around making hypothetical health care decisions and discussing the nature of these decisions in class. What did you find challenging or easy about the decision? Would your decision have been different if you had a different set of health or family circumstances? What impact does current government policy have on those decisions? We will then discuss relevant economic concepts

Week		Monday	Wednesday	Friday
Week 1	8/25 - 8/29	No Class	Introduction	Econometrics Review: OLS
Week 2	9/1 - 9/5	No Class (Labor Day)	Econometrics Review: Interpreting Coefficients	Insurance
Week 3	9/8 - 9/12	Insurance	Insurance	Insurance
Week 4	9/15 - 9/19	Insurance	Insurance Case study topics due	Insurance
Week 5	9/22 - 9/26	Insurance	Insurance	Article Discussion First article review due
Week 6	9/29 - 10/3	Providers Paper proposals due	Providers	Providers
Week 7	10/6 - 10/10	Providers	Providers	Providers
Week 8	10/13 - 10/17	No Class (Fall Break)	Providers	Providers
Week 9	10/20 - 10/24	Providers	Exam	In-class Time for Case Studies and Projects
Week 10	10/27 - 10/31	Financing	Financing	Financing Draft papers due
Week 11	11/3 - 11/7	Financing	Financing	Financing
Week 12	11/10 - 11/14	Financing	Financing	Article Discussion Second article review due
Week 13	11/17 - 11/21	Presentations	Presentations	Presentations
Week 14	11/24 - 11/28	In-class Time for Papers	No Class (Thanksgiving Break)	No Class (Thanksgiving Break)
Week 15	12/1 - 12/5	New issues in health care	New issues in health care	New issues in health care
Week 16	12/8	Last Day of Class Final papers due		

related to these decisions. I expect everyone to complete the necessary activities and readings prior to each class and to actively participate in our discussions.

Evaluation

Grades will be determined as follows:

Opportunity	Percent
Final paper	40
Team case study	20
Exam	15
Article reviews	15
Participation	10

- *Paper*: As a writing requirement course, the final paper is the main project for the class. The paper will be an analysis of government policy in a health economics topic of your choice related to health insurance, health care delivery, or individual decision making. The paper is due during

final exam week; however, the process of writing the paper will be semester-long. A one-page, single-space project proposal will be due on September 29. Over the subsequent two weeks, I will meet with each of you in person to discuss your proposal and any concerns or questions you may have. A draft of your paper will be due on October 31. I will provide feedback in writing and in person over the subsequent two weeks, and the final paper will be due on final exam day.

I encourage everyone to consult with the Emory Writing Center for support on the paper including grammar and structure. You can reach the writing center at 404-727-6451 or online.

- *Case study:* The class will be divided into four groups, each of which will analyze and provide a 20 minute presentation on a case study on practical health economics problems. The case studies relate to the following topics: 1) shared-savings in accountable care organizations; 2) bundled payments; 3) value-based purchasing; 4) physician employment versus private practice; 5) hospital contract negotiations; and 6) changes in Medicare reimbursement rates. Each group must choose one topic by September 17 to be presented in class the week of November 17.

Details of the case studies will be provided shortly. In general, the case study will consist of a problem relating to one of the above listed topics. For example, you may be asked to adopt the role of a hospital who is considering joining an accountable care organization and must devise an appropriate shared-savings contract. As a group, you must agree on an approach to investigate the problem, propose a strategy or solution going forward, and offer a prediction as to the impacts of your proposed solution.

- *Exam:* There will be one exam for the class on October 22. The exam will cover all material and discussions through October 20.
- *Article reviews:* Out of the list of readings above, you are expected to pick two of the articles and submit a one-page, single-space critical review of each. The review should include a summary of the paper's main question or hypothesis, the significance of this question in health economics and policy, the primary methods and data used in the analysis, and the main findings. The first review will be due September 26, and the second review due November 14.
- *Participation:* Students are expected to come to class prepared and engaged. For randomly selected classes, I will ask everyone to provide a "minute paper" at the end of class. These are simply 2-3 sentences in response to a question regarding the content or discussion from that class. Each minute paper you complete counts toward one participation point.

Academic Integrity and Honor Code

The Emory University Honor Code is taken seriously and governs all work in this course. Details about the Honor Code are available online. By taking this course, you affirm that it is a violation of the code to cheat on exams, to plagiarize, to deviate from the instructions about collaboration on work that is submitted for grades, to give false information to a faculty member, and to undertake any other form of academic misconduct. You agree that the teacher is entitled to move you to another seat during examinations, without explanation. You also affirm that if you witness others violating the code you have a duty to report them to the honor council.

Reading List

- Abaluck, Jason, & Gruber, Jonathan. 2011. Heterogeneity in choice inconsistencies among the elderly: evidence from prescription drug plan choice. *The American Economic Review*, **101**(3), 377–381.
- Abraham, Jean, Gaynor, Martin, & Vogt, William B. 2007. Entry and Competition in Local Hospital Markets. *The Journal of Industrial Economics*, **55**(2), 265–288.
- Angrist, J., & Pischke, J. 2009. *Mostly Harmless Econometrics*. Princeton, NJ: Princeton University Press.
- Aron-Dine, Aviva, Einav, Liran, & Finkelstein, Amy. 2013. The RAND Health Insurance Experiment, Three Decades Later. *Journal of Economic Perspectives*, **27**(1), 197–222.
- Arrow, Kenneth J. Uncertainty and the Welfare Economics of Medical Care. *The American Economics Review*, **53**(5).
- Baicker, Katherine, Chernew, Michael E, & Robbins, Jacob A. 2013. The spillover effects of Medicare managed care: Medicare Advantage and hospital utilization. *Journal of health economics*, **32**(6), 1289–1300.
- Bresnahan, Timothy F, & Reiss, Peter C. 1991. Entry and competition in concentrated markets. *Journal of Political Economy*, 977–1009.
- Chernew, M., Baicker, K., & Martin, C. 2010. *Spillovers in Health Care Markets: Implications for Current Law Projections*. Tech. rept. Centers for Medicare and Medicaid Services.
- Cutler, David M, & McClellan, Mark. 2001. Is technological change in medicine worth it? *Health affairs*, **20**(5), 11–29.

- Dafny, L., & Dranove, D. 2008. Do report cards tell consumers anything they don't already know? The case of Medicare HMOs. *The Rand journal of economics*, **39**(3), 790–821.
- Dafny, Leemore. 2010. Are Health Insurance Markets Competitive? *American Economic Review*, **100**(4), 1399–1431.
- Emanuel, Ezekiel. 2014. *Reinventing American Health Care*. New York, NY: PublicAffairs.
- Finkelstein, Amy, Taubman, Sarah, Wright, Bill, Bernstein, Mira, Gruber, Jonathan, Newhouse, Joseph P, Allen, Heidi, Baicker, Katherine, *et al.* 2012. The Oregon Health Insurance Experiment: Evidence from the First Year. *The Quarterly Journal of Economics*, **127**(3), 1057–1106.
- Gruber, Jonathan, & Simon, Kosali. 2008. Crowd-out 10 years later: Have recent public insurance expansions crowded out private health insurance? *Journal of health economics*, **27**(2), 201–217.
- Hibbard, J.H., Jewett, J.J., Engelmann, S., & Tusler, M. 1998. Can Medicare beneficiaries make informed choices? *Health Affairs*, **17**(6), 181–193.
- Huckfeldt, Peter J, Sood, Neeraj, Romley, John A, Malchiodi, Alessandro, & Escarce, José J. 2013. Medicare Payment Reform and Provider Entry and Exit in the Post-Acute Care Market. *Health services research*.
- Madrian, Brigitte C. 1994. Employment-based health insurance and job mobility: Is there evidence of job-lock? *The Quarterly Journal of Economics*, **109**(1), 27–54.
- McGuire, Thomas G. 2011. Chapter Five - Demand for Health Insurance. *Pages 317 – 396 of: Mark V. Pauly, Thomas G. McGuire, & Barros, Pedro P. (eds), Handbook of Health Economics*. Handbook of Health Economics, vol. 2. Elsevier.
- Pindyck, R., & Rubinfeld, D. 2009. *Microeconomics*. Upper Saddle River, NJ: Prentice Hall.
- Reid, T.R. 2010. *The Healing of America: A Global Quest for Better, Cheaper, and Fairer Health Care*. New York, NY: Penguin Group.
- Skinner, Jonathan S, Staiger, Douglas O, & Fisher, Elliott S. 2006. Is technological change in medicine always worth it? The case of acute myocardial infarction. *Health Affairs*, **25**(2), w34–w47.
- Stabile, Mark, & Thomson, Sarah. 2014. The Changing Role of Government in Financing Health Care: An International Perspective. **52**(2), 480–518.
- Town, Robert, & Liu, Su. 2003. The welfare impact of Medicare HMOs. *RAND Journal of Economics*, 719–736.