

**Health Economics 01:220:316:H6 (25950)**  
(This course is a higher-level elective)

**Cook/Douglas Lecture Hall (CDL), Room 110**  
**Monday/Wednesday 7:15PM – 8:35PM**  
**September 7 – December 12, 2011**

Note: We will have class on Thursday September 8, 2011 because the university is on a Monday class schedule to make up for Labor Day.

**Contact information**

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Office hours: Tuesday 4:00-4:30, Wednesday 10:30-12:00, & by appointment  
(If the doors are locked before 5:00, please call my phone number and I will buzz you in.)

**Important dates**

Proposal for small group project	9/28/11
Exam 1	10/5/11
Preliminary results for small group project	10/26/11
Last day to withdraw with W grade & no tuition refund	10/26/11
Exam 2	11/9/11
Thanksgiving Wednesday – No class	11/23/11
Final report for small group project	12/7/11
Exam 3 (during final exam period)	12/19/11 (8:00PM)

## Course overview

This course is an introduction to the economics of health and healthcare. Students will apply economic reasoning to contemporary issues involving the organization, cost, and distribution of resources in the health sector. The course will focus primarily on healthcare in the United States but will include some coverage of other nations as well. The course will also emphasize the application of analytic techniques from microeconomics and the use of applied econometrics to work with a health-related database.

By the end of the course, students should be able to explain the pros and cons of alternative mechanisms of healthcare financing, organization, and reimbursement. Students should also be able to critically evaluate healthcare reform proposals and design their own econometric investigation of a health economics research question.

More broadly, the course is designed to advance many of the learning goals developed by the Economics Department for all economics majors at Rutgers University. The official learning goals are listed below.

1. Economic Literacy - Students who complete the major in economics should understand and be able to articulate, both orally and in writing, the core economic principles, concepts and theories that form the foundation for modern economic analysis and economic research.
2. Economic Numeracy - Students who complete the economics major should be familiar with the tools, techniques and methods of empirical economics. They should be able to analyze data using computer applications and should be familiar with regression methods and other statistical techniques. They should be able to read and assess general interest articles on economic topics. In addition, they should be able to understand and evaluate key findings in published economic research from a wide range of sources including academic economists, public policy 'think tanks,' and government agencies.
3. Economic Citizenship - Upon completion of the major students should be able to apply their understanding of core concepts and quantitative tools to analyze and research real world problems and evaluate alternative economic policy proposals on microeconomic and macroeconomic issues.
4. Economic Scholarship – Qualified majors should have an opportunity through such avenues as advanced coursework, faculty interactions, national and local competitions and honors courses and programs to utilize up-to-date methodological tools and become fully engaged in economic research and issues on the frontiers of economics.

## Prerequisites

Intermediate Microeconomics  
Econometrics



The prereqs for these courses are also included  
as prereqs for Health Econ.

## Grading & Assignments

- Your final grade will be determined by your performance on 3 exams and a small group project described below.
- There will be no extra credit assignments. It is best if you work to do as well as possible on the assignments listed above.
- I will not give a makeup exam unless you have a well documented official reason.
- The table below gives the grade allocation by assignment.

<b>Assignment</b>	<b>Percentage of final grade</b>
Highest exam score	35%
Middle exam score	25%
Lowest exam score	15%
Group project	25%
Homework problems (For practice only)	0%

### Small group project

The project will involve econometric analysis of healthcare data. (I will give you details in a separate document.) You will be able to work in groups of 2 or 3 to do the analysis and write a final report. I expect most of you will do the econometrics in Eviews, although you may use different software if you wish. Eviews is available at many computer centers on campus. Students can also purchase a student version of Eviews by going to the Eviews website: <http://www.eviews.com>

As you work on the project, you are welcome to ask me questions about the software. (If you took Econometrics with me, you should be very familiar with Eviews already.)

### Grading

I plan to use the following grading scale after all scores have been averaged at the end of the semester. If this makes it impossible for anyone to receive an A, I will construct a curve that is more lenient after all assignments have been averaged at the end of the semester. For planning purposes, you should compare your average throughout the semester to the scale below.

Range	Grade
90-100	A
85-89	B+
80-84	B
75-79	C+
70-74	C
60-69	D
< 60	F

I will use conventional rounding methods to calculate your grade – e.g., 74.4 is rounded to 74 and 74.5 is rounded to 75. If you are one point away from a higher grade you will not get the higher grade (e.g., 89 is a B+, not an A). This is less strict than it seems because the favorable weighting of the exam grades helps you more than adding a fraction of a point at the end of the semester.

## **Academic integrity**

The University has clear rules about cheating and other violations about academic integrity, which apply to this course. If you are not familiar with them, please learn them at <http://ctaar.rutgers.edu/integrity/policy.html> . If you are honest and willing to work hard to learn the course material, this should not be an issue for you.

## **Class attendance**

Students are expected to attend all classes. If you expect to miss one or two classes because of illness or a family emergency, please use the University absence reporting website <https://sims.rutgers.edu/ssra/> to indicate the date and reason for your absence. An email is automatically sent to me.

## **Course materials**

### **Reading**

- You are responsible for the reading assignments below and any other material covered in class.
- I do not have a textbook assigned to the course. Here are two books that might be useful as references.

Thomas Getzen. Health Economics and Financing. 3<sup>rd</sup> Ed. Wiley. 2007.

S. Folland, A. Goodman, & M. Stano. The Economics of Health and Health Care. 4<sup>th</sup> Ed. Pearson Prentice Hall. 2004

- Reading materials, lecture notes, and assignments will be found on the Sakai website (<http://sakai.rutgers.edu/portal>). Please check the site regularly. I also suggest that you use a three-ring binder to keep the materials organized.

## **Course topics & reading list**

*Some modifications to the topics and readings may be made as the semester proceeds.*

### **PART I. HEALTH & HEALTH SYSTEMS**

#### **I-1.) Introduction & Overview**

Congressional Budget Office. Technological Change and the Growth of Health Care Spending. CBO Paper, January 2008.

Elliot Fisher et al. (2009). Health Care Spending, Quality, and Outcomes: More Isn't Always Better. A Dartmouth Atlas Project Issue Brief. Dartmouth Institute for Health Policy and Clinical Practice.

#### **I-2.) Health Production and Value**

This topic will depend heavily on lecture notes.

Joshua Cohen et al. (2008), "Does Preventive Care Save Money? Health Economics and the Presidential Candidates." New England Journal of Medicine 358(7): 661-663.

Michael Rawlins and Anthony Culyer (2004), "National Institute for Clinical Excellence and Its Value Judgments." British Medical Journal 329: 224-227.

#### **I-3.) Organization and Funding of Healthcare Systems**

James Henderson (2009) "Medical Care Systems Worldwide". Chapter 14 in Health Economics and Policy. South-Western Cengage Learning: Mason, OH.

Cathy Schoen et al. (2009). Harnessing Health Care Markets for the Public Interest: Insights for U.S. Health Reform from the German and Dutch Multipayer Systems. Academy Health & The Commonwealth Fund. CWF Pub. No. 1352.

Uwe Reinhardt et al. (2004), "U.S. Health Care Spending in an International Context." Health Affairs 23(3): 10-25.

Ellen Nolte and Martin McKee (2003), "Measuring the Health of Nations: Analysis of Mortality Amenable to Medical Care." British Medical Journal 327(15): 1129-1133.

Robert Blendon et al. (2003), "Common Concerns Amid Diverse Systems: Health Care Experiences in Five Countries." Health Affairs 22(3): 106-121.

## **PART II. HEALTH INSURANCE & THIRD PARTY PAYMENT**

*For Part II of the course, you may find it helpful to examine chapters 7, 8, 11, and 12 from the Folland, Goodman, Stano text or chapters 4 and 5 from the Getzen text. Of course, everything I want you to know will be emphasized in the lectures. (The book chapters will cover many other topics that are not relevant for the course but you may find interesting.)*

### II-1.) Insurance Concepts

This topic will depend exclusively on lecture notes.

### II-2.) Cost Sharing, Demand Elasticity, and Moral Hazard

Rand Corporation (2006). The Health Insurance Experiment. Rand Health Research Highlights. Santa Monica, CA.

Thomas Rice (1992), "An Alternative Framework for Evaluating Welfare Losses in the Health Care Market." Journal of Health Economics 2(1): 88-92.

John Nyman (2004), "Is Moral Hazard Efficient? The Policy Implications of a New Theory." Health Affairs 23(5): 194-199.

Amal Trivedi et al. (2010), "Increased Ambulatory Care Copayments and Hospitalizations among the Elderly." New England Journal of Medicine 362(4): 320-328.

Michael Chernew et al. (2010), "Evidence That Value-Based Insurance Can Be Effective." Health Affairs 29(3): 1-7.

### II-3.) Employer Sponsored Insurance (ESI)

This topic will depend exclusively on lecture notes.

### II-4.) Managed Care

This topic will depend heavily on lecture notes.

Derek DeLia et al. (2001), "Medicaid Managed Care in New York City: Recent Performance and Coming Challenges." American Journal of Public Health 91(3): 458-460.

### **PART III. HEALTHCARE PROVIDERS & PAYMENT SYSTEMS**

*For Part III of the course, you may find it helpful to examine chapters 13, 14, and 16 from the Folland, Goodman, Stano text or chapters 6, 8, 9, and 11 from the Getzen text. Of course, everything I want you to know will be emphasized in the lectures. (The book chapters will cover many other topics that are not relevant for the course but you may find interesting.)*

#### III-1.) Physicians

Mark Chassin, (1998), “Is Health Care Ready for Six Sigma Quality”, Milbank Quarterly 76(4): 565-591.

Paul Ginsburg and Joy Grossman (2005), “When the Price Isn’t Right: Payment Incentives Drive Medicare.” Health Affairs W5: 376-384.

Lewis Sandy et al. (2009), “The Political Economy of U.S. Primary Care.” Health Affairs 28(4): 1136-1144.

Thomas Bodenheimer et al. (2007), “The Primary Care-Specialty Income Gap: Why It Matters.” Annals of Internal Medicine 146(4): 301-306.

“Health Policy Brief: Paying Physicians for Medicare Services.” Health Affairs, June 25, 2010.

Jonathan Ketcham and Michael Furukawa (2008), “Hospital-Physician Gainsharing in Cardiology.” Health Affairs 27(3): 803-812.

Health Policy Brief: Accountable Care Organizations,” Health Affairs. July 27, 2010.

#### III-2.) Hospitals

Glenn Melnick et al. (1992), “The Effects of Market Structure and Bargaining Position on Hospital Prices.” Journal of Health Economics 11: 217-233.

David Cutler and Louise Sheiner (1998), “Managed Care and the Growth of Medical Expenditures.” Ch. 3 in A.M. Garber, ed. Frontiers of Health Policy Research. Cambridge, Mass.: MIT Press, 1998.

J.P. Clement (1997-98), “Dynamic Cost Shifting in Hospitals: Evidence from the 1980s and 1990s.” Inquiry 34(4): 340–350.

Derek DeLia et al. (2002), “Productivity versus Training in Primary Care: Analysis of Hospitals and Health Centers in New York City”. Inquiry 39(3): 314-326.

### III-3.) Pharmaceutical Firms

Federal Trade Commission. Emerging Health Care Issues: Follow-on Biologic Drug Competition. FTC Report, June 2009.

Fiona Scott Morton (1997), "The Strategic Response by Pharmaceutical Firms to the Medicaid Most Favored Customer Rules." Rand Journal of Economics 28(2): 269-290.