

Health Economics

ECP5536 - Spring 2010

DEPARTMENT of ECONOMICS
FLORIDA STATE UNIVERSITY

SYLLABUS

Lectures: W 1:25pm - 4:25pm (Rm. Bel 282)	Instructor: Farasat A.S. Bokhari
Internet: http://mailer.fsu.edu/~fbokhari/ecp5536	Email: fbokhari@fsu.edu
Office: Bellamy 284	Tel: (850) 644-7098
Hours: M 1-2pm	Fax: (850) 644-4535

Course Objective

The purpose of this course is to introduce the student to the methods of health economics and demonstrate how these methods can be applied to analyze issues in health policy. This course will teach the student to use economic analysis to understand critical issues in health care and health policy. Topics will broadly cover: demand for medical care, demand, supply and market for insurance, physicians and market for physician services, hospitals and the market for hospital services, the production of health, technical change in health care. The topic list is flexible and student input will be solicited and welcomed.

Prerequisites

Students should have had a semester of Ph.D. level microeconomics, probability and statistics, and econometrics.

Grading

The final grade will consist of weighted average of class discussions and assignments (35%) and a term paper (65%). Please stop by during office hours to discuss your paper topic with me. There is a required progress report on the paper due about mid-way during the semester.

American Disabilities Act Statement

Students with disabilities needing academic accommodations should: (1) register with and provide documentation to the Student Disability Resource Center (SDRC); (2) bring a letter to the instructor from SDRC indicating that you need academic accommodations. This should be done within the first week of class.

Readings

There are two primary text books that will be used for this course plus readings from the literature. The two main texts are

- (CP) Charles E. Phelps. *Health Economics*. Addison Wesley, New York, 3 edition, 2003
- (FGS) Sherman Folland, Allen C. Goodman, and Miron Stano. *The Economics of Health and Health Care*. Prentice-Hall, Upper Saddle River, New Jersey, 3rd. edition, 2001

The additional readings are either chapters from various books (very often from the Handbook of Health Economics (HBHE, **Anthony J. Culyer and Joseph P. Newhouse, editors. *Handbook of Health Economics*. Elsevier, Amsterdam, North-Holland, 2000**) and/or journal articles. Single copies of chapters are available from me. Journal articles are typically available from JSTOR and/or the library. When they are not available from those sources, I will provide a single copy of those articles as well. Please copy and return promptly.

Reading List

The list given below is tentative and subject to change.

Health Care Different?

- Kenneth J. Arrow. Uncertainty and the welfare economics of medical care. *American Economic Review*, 53(5):941–973, December 1963.
- Charles E. Phelps. *Health Economics*. Addison Wesley, New York, 3 edition, 2003 (chap. 1:1-9).
- Sherman Folland, Allen C. Goodman, and Miron Stano. *The Economics of Health and Health Care*. Prentice-Hall, Upper Saddle River, New Jersey, 3rd. edition, 2001 (chap. 1:12-17).

Health Care Costs and Inflation.

- Aaron Catlin, Cathy Cowan, Stephen Heffler, Benjamin Washington, and the National Health Expenditure Accounts Team. National health spending in 2005: The slowdown continues. *Health Affairs*, 26(1):142–153, January/February 2007.
- Joseph P. Newhouse. Medical care costs: How much welfare loss? *Journal of Economic Perspectives*, 6(3):3–21, Summer 1992.
- Burton A. Weisbrod. The health care quadrilemma: An essay on technological change, insurance, quality of care, and cost containment. *Journal of Economic Literature*, 29(2):523–552, June 1991.
- Victor R. Fuchs. Cost containment: No pain, no gain. In *The Future of Health Policy*, chapter 10, pages 157–163. Harvard University Press, Cambridge, MA, 1993.
- Mark V. Pauly. Should we be worried about high real medical spending growth in the United States. *Health Affairs*, 22(1):15–27, January 1 2003. Web exclusive.
- Ernst R. Berndt, David M. Cutler, Richard G. Frank, Zvi Griliches, Joseph P. Newhouse, and Jack E. Triplett. Medical care prices and output. In A.J. Culyer and J.P. Newhouse, editors, *Handbook of Health Economics*, volume 1A, pages 119–180. Elsevier, North-Holland, 2000.
- David M. Cutler, Mark McClellan, Joseph P. Newhouse, and Dahlia Remler. Are medical prices declining? evidence from heart attack treatments. *Quarterly Journal of Economics*, 113(4):991–1024, November 1998.

Production of Health.

- Charles E. Phelps. *Health Economics*. Addison Wesley, New York, 3 edition, 2003 (chap. 1:9-26; chap. 3).
- Sherman Folland, Allen C. Goodman, and Miron Stano. *The Economics of Health and Health Care*. Prentice-Hall, Upper Saddle River, New Jersey, 3rd. edition, 2001 (chap. 5,6).
- Victor R. Fuchs. *Who Shall Live? Health, Economics, and Social Change*. Basic Books, New York, 2 edition, 1998 (chap. 2)
- Michael Grossman. The human capital model. In A.J. Culyer and J.P. Newhouse, editors, *Handbook of Health Economics*, chapter 7. Elsevier Science Inc., Amsterdam, North-Holland, 2000
 - OR Michael Grossman. The demand for health: A theoretical and emperical investigation. NBER Working Paper 119, National Bureau of Economic Research, New York, 1972
 - OR Michael Grossman. On the concept of health capital and the demand for health. *Journal of Political Economy*, 80(2):223–255, 1972.
- Anna Aizer. Peer effects and human capital accumulation: The externalities of ADD. NBER Working Paper 14354, National Bureau of Economic Research, September 2008

- Mark McClellan, Barbara McNeil, and Joseph P. Newhouse. Does more intensive treatment of acute myocardial infarction in the elderly reduce mortality? analysis using instrumental variables. *Journal of the American Medical Association*, 272(11):859–866, September 21 1994

Demand for Health.

- Willard G. Manning, Joseph P. Newhouse, Naihua Duan, Emmett B. Keeler, Arleen Leibowitz, and M. Susan Marquis. Health insurance and the demand for medical care: Evidence from a randomized experiment. Rand Publication R-3476-HHS, Rand Corporation, 1987. Publ. No. R-3476-HHS
OR Willard G. Manning, Joseph P. Newhouse, Naihua Duan, Emmett B. Keeler, Arleen Leibowitz, and M. Susan Marquis. Health insurance and the demand for medical care: Evidence from a randomized experiment. *American Economic Review*, 77(3):251–277, June 1987
- Avi Dor, Paul Gertler, and Jacques van der Gaag. Non-price rationing and the choice of medical care providers in rural cote d’ivoire. *Journal of Health Economics*, 6(4):291–304, December 1987
- Valentino Dardanoni and Adam Wagstaff. Uncertainty, inequalities in health and the demand for health. *Journal of Health Economics*, 6(4):283–290, December 1987
- Charles E. Phelps and Joseph P. Newhouse. Effects of coinsurance: A multivariate analysis. *Social Security Bulletin*, 35?:20+, June 1972
- Charles E. Phelps. *Health Economics*. Addison Wesley, New York, 3 edition, 2003(chap. 4,5).

Physician firm and the market for physician services.

- Thomas G. McGuire. Physician agency. In A.J. Culyer and J.P. Newhouse, editors, *Handbook of Health Economics*, volume 1A, chapter 9. Elsevier Science Inc., Amsterdam, North-Holland, 2000
- Timothy F. Bresnahan and Peter C. Reiss. Entry and competition in concentrated markets. *Journal of Political Economy*, 99(5):977–1009, October 1991
- Herbert S. Wong. Market structure and the role of consumer information in the physician services industry: An empirical test. *Journal of Health Economics*, 15:139–160, 1996
- Uwe E. Reinhardt. A production function for physician services. *The Review of Economics and Statistics*, 54(1):55–65, February 1972
- Martin S. Gaynor and Paul Gertler. Moral hazard and risk spreading in partnerships. *RAND Journal of Economics*, 26(4):591–613, Winter 1995
- David Dranove and Paul Wehner. Physician-Induced demand for childbirths. *Journal of Health Economics*, 13:61–73, 1994

The Demand for Insurance.

- Sherman Folland, Allen C. Goodman, and Miron Stano. *The Economics of Health and Health Care*. Prentice-Hall, Upper Saddle River, New Jersey, 3rd. edition, 2001 (chap. 11).
- David M. Cutler and Richard J. Zeckhauser. The anatomy of health insurance. In Anthony J. Culyer and Joseph P. Newhouse, editors, *Handbook of Health Economics*, volume 1A. Elsevier, Amsterdam, North-Holland, 2000
- Mark V. Pauly. The economics of moral hazard: comment. *American Economic Review*, 58(3):531–537, June 1968
- Kenneth J. Arrow. The economics of moral hazard: Further comment. *American Economic Review*, 58(3):537–539, June 1968
- Roger Feldman and Bryan Dowd. A new estimate of the welfare loss of excess health insurance. *American Economic Review*, 81(1):297–301, March 1991
- Willard G. Manning and M. Susan Marquis. Health insurance: The tradeoff between risk pooling and moral hazard. *Journal of Health Economics*, 15:609–639, October 1996

Market for Health Insurance.

- Michael Rothschild and Joseph Stiglitz. Equilibrium in competitive insurance markets: An essay on the economics of imperfect information. *Quarterly Journal of Economics*, 90(4):629–649, November 1976
- John Cawley and Tomas Philipson. An empirical examination of information barriers to trade in insurance. *American Economic Review*, 89(4):827–846, September 1999
- Joseph P. Newhouse. Reimbursing health plans and health providers: Selection versus efficiency in production. *Journal of Economic Literature*, 34(3):1236–1263, September 1996
- Mark V. Pauly. Taxation, health insurance, and market failure in medical care. *Journal of Economic Literature*, 24(2):629–675, June 1986
- Fred J. Hellinger. Selection bias in HMOs and PPOs: A review of the evidence. *Inquiry*, 32(2):135–142, Summer 1995
- Mark V. Pauly. Overinsurance and public provision of insurance: The roles of moral hazard and adverse selection. *Quarterly Journal of Economics*, 88(1):44–62, February 1974
- Randall P. Ellis. Employee choice of health insurance. *Review of Economics and Statistics*, 71(2):215–223, May 1989
- Douglas Wholey, Roger Feldman, and Jon B. Christianson. The effect of market structure on HMO premiums. *Journal of Health Economics*, 14(1):81–105, 1995

Hospitals and the market for hospital services.

- Mark V. Pauly and M. Redisch. The not-for-profit hospital as a physicians' cooperative. *American Economic Review*, 63(1):87–99, 1973
- David Dranove, Mark Shanley, and Carol Simon. Is hospital competition wasteful? *RAND Journal of Economics*, 23(2):247–262, Summer 1992
- Emmett B. Keeler, Glenn Melnick, and Jack Zwanziger. The changing effects of competition on non-profit and for-profit hospital pricing behavior. *Journal of Health Economics*, 18(1):69–86, January 1999
- James C. Robinson and Harold S. Luft. The impact of hospital market structure on patient volume, average length of stay, and the cost of care. *Journal of Health Economics*, 4:333–356, 1985
- Martin Gaynor and William B. Vogt. Competition among hospitals. *Rand Journal of Economics*, 34(4):764–785, 2003
- Gary M. Fournier and Yunwei Gai. What does Willingness-to-Pay reveal about hospital market power in merger cases? mimeo, 2007
- Cory Capps, David Dranove, and Mark Satterthwaite. Competition and market power in option demand markets. *RAND Journal of Economics*, 34(4):737–763, September 2003
- Daron Acemoglu and Amy Finkelstein. Input and technology choices in regulated industries: Evidence from the health care sector. NBER Working Paper 12254, National Bureau of Economic Research, May 2006
- Michael E. Chernew, Gautam Gowrisankaran, and A. Mark Fendrick. Payer type and the returns to bypass surgery: evidence from hospital entry behavior. *Journal of Health Economics*, 21(3):451–474, May 2002
- David M. Cutler and Mark McClellan. The determinants of technological change in heart attack treatment. NBER Working Paper 5751, National Bureau of Economic Research, September 1996
- Barton H. Hamilton and Brian McManus. Technology diffusion and market structure: Evidence from infertility treatment markets. September 2005

Insurance and Hospitals.

- W.P. Welch. The elasticity of demand for health maintenance organizations. *Journal of Human Resources*, 21(2):252–266, Spring 1986
- Michael Staten, William Dunkelberg, and John Umbeck. Market share and the illusion of power: Can blue cross force hospitals to discount? *Journal of Health Economics*, 6(1):43–58, March 1987
- Mark V. Pauly. Managed care, market power, and monopsony. *Health Services Research*, 33(5):1439–1460, December 1998

- Steven C. Hill and Barbara L. Wolfe. Testing the HMO competitive strategy: An analysis of its impact on medical care resources. *Journal of Health Economics*, 16(3):261–286, 1997
- Catherine G. McLaughlin. Market response to HMOs: Price competition or rivalry? *Inquiry*, 25(2):207–218, Summer 1988
- Roger Feldman and Douglas Wholey. Do hmos have monopsony power? *International Journal of Health Care Finance and Economics*, 1(1):7–22, March 2001
- David Dranove, Anne Gron, and Michael J. Mazzeo. Differentiation and competition in HMO markets. *Journal of Industrial Economics*, 51(4):433–454, December 2003
- Alan T. Sorensen. Insurer-hospital bargaining: Negotiated discounts in post-deregulation Connecticut. *The Journal of Industrial Economics*, 51(4):469–490, December 2003
- Laurence C. Baker. Manged care and technology adoption in health care: Evidence from magnetic resonance imaging. *Journal of Health Economics*, 20(3):395–421, May 2001
- Laurence C. Baker and Joanne Spetz. Managed care and medical technology growth. NBER Working Paper 6894, National Bureau of Economic Research, Cambridge, MA, January 1999
- Farasat A.S. Bokhari. Managed care and the adoption of hospital technology: The case of cardiac catheterization. *International Journal of Industrial Economics*, 27(2):223–237, 2009

Pharmaceutical Markets.

- E. Rexford Santerre and Stephen P. Neun. *Health Economics: Theories, Insights, and Industry Studies*. Thomson, 3 edition, 2004 “The Pharmaceutical Industry” (chapter 14)
- F.M. Scherer. The pharmaceuticals industry. In Anthony J. Culyer and Joseph P. Newhouse, editors, *Handbook of Health Economics*, volume 1B. Elsevier, Amsterdam, North-Holland, 2000
- Henry G. Grabowski and John M. Vernon. Returns to R&D on new drug introductions in the 1980s. *Journal of Health Economics*, 13(4):383–406, 1994
- Henry Grabowski, John Vernon, and Joseph A. DiMasi. Returns on research and development for 1990s new drug introductions. *PharmacoEconomics*, 20(Supplement 3):11–29, 2002
- Richard G. Frank and David S. Salkever. Pricing patent loss and the market for pharmaceuticals. *Southern Economic Journal*, 59(2):165–179, October 1992
- David Dranove and David Meltzer. Do important drugs reach the market sooner? *RAND Journal of Economics*, 25(3):402–423, Autumn 1994
- Sara Fisher Ellison, Iain Cockburn, Zvi Griliches, and Jerry A. Hausman. Characteristics of demand for pharmaceutical products: an examination of four cephalosporins. *RAND Journal of Economics*, 28(3):426–446, Autumn 1997
- John Rizzo. Advertising and competition in the ethical pharmaceutical industry: The case of anti-hypertensive drugs. *Journal of Law and Economics*, XLII:89–116, April 1999
- Z. John Lu and William S. Comanor. Strategic pricing of new pharmaceuticals. *The Review of Economics and Statistics*, 80(1):108–118, February 1998
- Farasat A.S. Bokhari and Gary Fournier. Entry in the ADHD drugs market: Welfare impact of generics and me-toos. mimeo, 2009.
- Richard G. Frank and David S. Salkever. Generic entry and the pricing of pharmaceuticals. *Journal of Economics and Management Strategy*, 6(1):75–90, Spring 1997
- David Reiffen and Michael R. Ward. ‘branded generics’ as a strategy to limit cannibalization of pharmaceutical markets. *Managerial and Decision Economics*, 28(4-5):251–265, 2007