

## ECONOMICS 141: ECONOMICS OF HEALTH CONSUMERS

Spring 2011, T-TH 12:30 - 1:50 pm, Solis 104

*Instructor:* Dr. Melissa Famulari  
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Office: Economics Bldg, 221  
Office Hours: Wednesdays 11-2:00

*Teaching Assistants:*

(1) Benjamin Backes

Office: Econ 119  
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(2) Robert Mackay

Office: Sequoyah Hall 266  
Office Hrs: Monday 9-11:00

(3) Matthew Niedzwiecki

Office: Econ 123  
Office Hrs: T-TH 9:30-11:00

*Prerequisites:* Econ 100C (Intermediate Microeconomics, part C)

*Assessment:* There are two inclass midterm exams, **Thursday, April 21<sup>th</sup>** and **Thursday, May 12<sup>th</sup>**, each of which is worth 25% of your grade. The final exam is cumulative and is worth 50% of your grade. The final is **Monday, June 6 from 11:30a-2:30p.**

*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 health and 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, medical errors and the quality of care, and 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, problem sets, old exams, class handouts, 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 this academic sanction, 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 an adding mistake, bring it to my attention and I will correct it immediately. If you believe there is a grading mistake, 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 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.

**Comparative statics:**

**A. Changes in income on Health Spending**

Acemoglu, Daron, Amy Finkelstein, and Matthew Notowidigdo (2009) "Income and Health Spending: Evidence from Oil Price Shocks" NBER #14744

**B: Changes in the price of Medical Care on Health Spending**

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

**C. Changes in Education on Health**

Cutler, David and Adriana Lleras-Muney (2008), "Education and Health: Evaluating Theories and Evidence." Published in *Making Americans Healthier: Social and Economics Policy as Health Policy*, Robert F. Schoeni, James S. House, George Kaplan and Harold Pollack, Eds., New York: Russell Sage Foundation.

**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.

Michael, Anderson, Carlos Dobkin, and Tal Gross, "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:

Einav, Liran and Amy Finkelstein, "Selection in Insurance Markets: Theory and Empirics in Pictures." *Journal of Economic Perspectives*, Volume 25, Number 1, Winter 2011, pp. 115-138

### 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 to Adverse Selection: screen purchasers by offering selected price-quantity contracts, group insurance, compulsory insurance, require disclosure of private information.

## Week 4: 4/19 The Uninsured

### A. How many people are Uninsured?

### B. Covering the Uninsured:

Gruber, Jonathan. 2008. "Covering the Uninsured in the United States." *Journal of Economic Literature*.

### C. Potential Benefits of Covering the Uninsured:

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.

### D. Implicit Health Insurance? Emergency Medical Treatment and Active Labor Act (EMTALA) and Bankruptcy

Mahoney, Neil (2010), "Bankruptcy as Implicit Health Insurance" Stanford job market paper.

### E. Expansions of Social Insurance

Gruber, Jonathan and Simon, Kosali, "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Insurance?" *Journal of Health Economics*, March 2008, Volume 27, Issue 2, pp.201-217.

## Midterm 1: Thursday, April 21

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

### iii. 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.

iv. Employer Provision of Health Insurance

Gruber, Jonathan, "Tax Exclusion for Employer-Sponsored Health Insurance" NBER Working Paper Series, #15766, February 2010 (forthcoming, National Tax Journal)

Week 6: 5/3 **Employer Provision of Health Insurance: Effects on Labor Supply and the Decision to Change Jobs and to Retire.**

Gruber, Jonathan and Brigitte Madrian, "Health Insurance, Labor Supply and Job Mobility: A Critical Review of the Literature" in Catherine G. McLaughlin eds. *Health Policy and the Uninsured* (Urban Institute Press: Washington, D.C.) 97-178. (also NBER Working Paper Series, #8817, March 2002.)

Week 7: 5/10 **Midterm 2: Thursday, May 12**

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 Bianca K. Frogner, "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.

Week 10: 5/31

Does Massachusetts' Health Care Reform Point to Success with National Reform? *Journal of Policy Analysis and Management*, Vol. 30, No. 1, 177-195 (2011). A point-counter-point article by Jon Gruber and Douglas Holtz-Eakin.

**Final Exam: Monday, June 6 from 11:30a-2:30p.**