

ECONOMICS 141: ECONOMICS OF HEALTH CONSUMERS, Winter 2014

MWF 11:00 – 12:00 pm, Peterson 104

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Tuesday 11:00-noon

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Prerequisites: Econ 100C

Course Objectives: It's an exciting time to be studying health economics! For several reasons health care reform is at the forefront of policy debate in the United States today. First, many of the key provisions of the 2010 Affordable Care Act go into effect in 2014. Second, we currently spend a huge share of our GDP (17.9% in 2011) on health care. Finally, the share of GDP going to medical care has grown rapidly, putting immense pressure on government and personal budgets. 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: deriving demand functions 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 retire, estimating the value of a life and valuing of health improvements, and international comparisons of health systems.

After taking this class you will be able to:

1. Analyze the consumption side healthcare markets from where markets work efficiently and where government intervention can improve efficiency.
2. Analyze current proposals for reforming healthcare system in the U.S. from an economic perspective and state what each policy will accomplish based on evidence from research.
3. Be able to critically assess value of life estimates and use these estimate in cost-benefit calculations.
4. Critically compare health outcomes across countries and assess whether outcome differences are attributable to differences in healthcare systems based on research.

These skills (and data analysis skills from the 120 series) are vital to succeeding in economic consulting or graduate school. Doing well in coursework and getting good recommendations contribute to landing a great job in your field or getting accepted into a good graduate school. This is a small, advanced class and I hope to get to know many of you.

Assessment

1. Final: 55% (Monday, 3/17/14, 11:30-2:30pm, location TBA)
2. Midterm: 35% (Friday of week 5, 2/7/14, in class)
3. Online Reading Quizzes: 5%. You must do these quizzes on your own. Grade based on correct answers to multiple choice questions, based on that night's reading. If you do the assigned reading, these will be easy! Due by beginning of class following day. Scores from lowest 3 nights dropped.
4. Participation: 5%. These will be iClicker questions in class to check your understanding

of the material. Scores from lowest three days are dropped.

Course Materials

Required Readings: There is NO TEXTBOOK REQUIRED for this class (not worth it, quickly becomes out of date), so all the reading material will come from journal articles which you will find on Ted.

Ted: 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 electronics free.
 - (2) Any student held responsible for violating academic integrity 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 a mistake adding points on your exam, bring it to my attention and I will correct it immediately. If you believe your exam has not been graded properly, you may ask for a re-grade within one week of the exam being returned. Please write up your concerns and hand in with your exam.
 - (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>.
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Week 1 (1/6): Market Failures in Health Care Market, Current Issues, Overview of Public Health Insurance in US

Council of Economic Advisors (2009), "Economic Case for Health Reform", pages 1-17.

Week 2 (1/13): Demand for Health and Comparative statics (how the demand for health is affected by changes in income, prices and education)

A. Demand for Health and Medical Care

Folland, Goodman and Stano, *The Economics of Health and Health Care*. Ch. 7 "Demand for Health Capital" [scanned pages]

B. Changes in the Price of Medical Care on Health Spending

Gruber, Jonathan (2006) "The Role of Consumer Copayments for Health Care: Lessons from the Rand Health Insurance Experiment," Prepared for the Kaiser Family Foundation. [Pages 1-15].

Michael, Anderson, Carlos Dobkin, and Tal Gross (2012), "The Effect of Health Insurance Coverage on the Use of Medical Services", *American Economic*

Journal: Economic Policy, Vol. 4, No 1. [Page 1-4, conclusion, Figure 1 & 2].

C: Changes in Income on Health Spending

Acemoglu, Daron, Amy Finkelstein, and Matthew Notowidigdo (2013)
“Income and Health Spending: Evidence from Oil Price Shocks” forthcoming
Review of Economics and Statistics. [Read pages 1-5].

D. Changes in Education on Health

Cutler, David and Adriana Lleras-Muney (2006), “Education and Health:
Evaluating Theories and Evidence.” NBER #12352. [Section 1 and 3].

Week 3 (1/20): MONDAY: Martin Luther King, Jr. Holiday

Uncertainty, Risk Aversion, and the Demand for Insurance

A. Arrow, Kenneth, “Uncertainty and the Welfare Economics of Medical Care,” *American Economic Review*, Vol. LII, December 1963, 941-973. [Read Sections 2 and 4]

B. Interview with Kenneth Arrow in the Atlantic on July 29, 2009.

Week 4 (1/27): 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?

B. Possible Responses to Moral Hazard: Coinsurance and Deductibles

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 Health Insurance Market?

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. [Introduction]

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. [Read Introduction, Background-part A, and conclusions]

B. Possible Responses to Adverse Selection: screen purchasers by offering selected price-quantity contracts, group insurance, mandatory insurance, and require disclosure of private information.

Week 5 (2/3): Wrap up and review. Midterm FRIDAY, 2/7.

2/10 United States Health Care System: Employer Sponsored Insurance

Kaiser Family Foundation. “Private Health Insurance: A Primer.” 2008. [pp. 1-8]

Gruber, Jonathan, "Tax Exclusion for Employer-Sponsored Health Insurance" *National Tax Journal*, June 2011, 64. [Pages 511-515 and conclusion.]

Gruber, Jonathan and Brigitte Madrian, "Health Insurance, Labor Supply and Job Mobility: A Critical Review of the Literature" NBER Working Paper, 2002. [Introduction and Conclusions]

Fang, Hanming, and Alessandro Gavazza. 2011. "Dynamic Inefficiencies in an Employment-Based Health Insurance System: Theory and Evidence." *American Economic Review*, 101(7): 3047-77. [Introduction and conclusions]

Garthwaite, Gross, and Notowidigdo, "Public Health Insurance, Labor Supply, and Employment Lock" NBER July 2013 [Introduction, Conclusion, and Figures 1, 3, 5, and 11)

2/17 MONDAY HOLIDAY: President's Day

The Uninsured

- A. Kaiser Family Foundation. "Uninsured: A Primer." 2011. [pp.19-21]
- B. Covering the Uninsured:
 - Gruber, Jonathan. 2008. "Covering the Uninsured in the United States." *Journal of Economic Literature*. [Read pgs. 571-584]
- 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. [Introduction, background on Medicare, conclusions)
- D. Implicit Health Insurance? Emergency Medical Treatment and Active Labor Act (EMTALA) and Bankruptcy
 - Mahoney, Neil (NBER, 2012), "Bankruptcy as Implicit Health Insurance". [Introduction and Institutional Background]
- 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. [Introduction and Medicaid Background (p 201-3)].

2/24 Placing a Value on Life and Determining the Value of Health Improvements

Ashenfelter, Orley, "Measuring the Value of a Statistical Life: Problems and Prospects," *Economics Journal*, 116, 10-23. [Read this article]

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. [I will cover in class]

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. [I will cover in class]

3/3 Predicting the Impact of the ACA

Kaiser Family Foundation. "Consumer's Guide to Health Reform." <http://www.kaiserhealthnews.org/stories/2012/march/22/consumer-guide-health-law.aspx>

Kaiser Family Foundation. "Massachusetts Health Care Reform: Six Years Later." 2012. [pp. 1-9]

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.

Heidi Allen, Katherine Baicker, Amy Finkelstein, Sarah Taubman, Bill Wright, and the Oregon Health Study Group, "[What the Oregon Health Study can tell us about expanding Medicaid.](#)" *Health Affairs*, 2010 Aug; 29(6): 1498-1506.

Katherine Baicker, Sarah Taubman, Heidi Allen, Mira Bernstein, Jonathan Gruber, Joseph P. Newhouse, Eric Schneider, Bill Wright, Alan Zaslavsky, Amy Finkelstein, and the Oregon Health Study Group, "[The Oregon Experiment – Medicaid's Effects on Clinical Outcomes](#)" *New England Journal of Medicine*, Volume 368, Issue 18. May 2013.

3/10 International Comparisons

Gerard Anderson and David Squires. "Measuring the U.S. Health Care System: A Cross-National Comparison." *The Commonwealth Fund*, 2010. [pp.1-8]

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.

Final exam: Monday, 3/17/14, 11:30-2:30pm