

HPAA 715 Health Economics

Spring 2008

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Time and Location

Mondays and Wednesdays, 11:00 am – 12:15 pm, in McGavran-Greenberg room 1304.

Objectives

This course will provide a broad overview of health economics, with direct applications to current policy issues. The course will examine how standard concepts and methods in economics can be used to analyze the strengths and weaknesses in various health policies, and how economic analysis can assist in the development of solutions to various diseases and health care problems. By reading papers that use data to answer health policy questions, students will be able to reinforce their understanding of basic microeconomic theory and empirical methods. The goals of the course are for students to

1. obtain an overview of policy issues in health economics
2. learn basic microeconomic theory and empirical methods
3. apply these methods to current policy issues.

Course Materials

The primary textbook for this course will be [The Economics of Health and Health Care](#), by Sherman Folland, Allen C. Goodman, and Miron Stano (Prentice Hall).

Each class will be based around a policy issue and a corresponding textbook chapter or published paper. Most papers are available online through the UNC Health Sciences Library Docutec ERes electronic reserve system <http://eres.hsl.unc.edu/eres/>. Additional required papers will be available on Blackboard. The syllabus will also list supplemental reading.

The Blackboard website will be used to manage course documents, including assignments, announcements, and problem sets. Grades will be posted in the on-line

grade book. Students should make sure that they can access Blackboard and that their listed e-mail address is accurate. Students are responsible for all announcements and assignments made through the web site.

Grading

Student grades will be a weighted average of three components.

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|--------------|-----|
| Problem sets | 30% |
| Midterm exam | 30% |
| Final exam | 40% |

Final grades will be assigned as follows:

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|---|---|
| H | At least 90% of all total points are achieved |
| P | Between 70-89% of total points are achieved |
| L | Between 60-69% of total points are achieved |
| F | Lower than 60% of total points are achieved |

Adjustments may be made to these levels depending on the actual point distribution in the current class at the end of the semester; in no case will the point levels be higher than those listed above for any given grade.

There will be a total of six problem sets during the semester. These will typically be distributed every other Monday and will be due the following Monday in class. As a general rule late assignments will not be graded, except in extreme circumstances with the prior approval from the instructors.

Ethics and Honor Code Policy

Students are encouraged to work on assignments independently, but allowed to collaborate before completing assignments. To emphasize the importance of integrity and intellectual property in the profession, you are required on each assignment to list those individuals with whom you collaborated, and attribute from whom you have borrowed any specific ideas (such as the approach used to solve a homework problem). Exams must be done completely independently.

Please limit use of electronic devices only to class-relevant activities. The use of electronic devices in this class is encouraged only for taking notes, or quickly looking up information relevant to the discussion. The use of electronic devices for multi-tasking, checking e-mail, and sending instant messages is inappropriate, rude to the presenter, and inconsiderate to other class members.

Students are also reminded that they must at all times abide by the UNC Code of Student Conduct.

HONOR CODE

The principles of academic honesty, integrity, and responsible citizenship govern the performance of all academic work and student conduct at the University as they have during the long life of this institution. Your acceptance of enrollment in the University presupposes a commitment to the principles embodied in the Code of Student Conduct and a respect for this most significant Carolina tradition. Your reward is in the practice of these principles.

Your participation in this course comes with the expectation that your work will be completed in full observance of the Honor Code. Academic dishonesty in any form is unacceptable, because any breach in academic integrity, however small, strikes destructively at the University's life and work.

If you have any questions about your responsibility or the responsibility of faculty members under the Honor Code, please consult with someone in either the Office of the Student Attorney General (966-4084) or the Office of the Dean of Students (966-4042).

Course Outline

| Week | Dates | Topics | Text |
|------|--------------------|--|---------------|
| 1 | Jan 9 | Introduction and course overview | Ch. 1 |
| 2 | Jan 14 & 16 | Statistical tools; Cost-benefit analysis and economic evaluation | Ch. 3, 4 |
| 3 | Jan 21 | <i>MLK Day – no class</i> | |
| | Jan 23 | Cost-benefit analysis and economic evaluation (cont.) | Ch. 4 |
| 4 | Jan 28 & 30 | Overview of microeconomic theory | Ch. 2 |
| 5 | Feb 4 & 6 | Demand for health capital | Ch. 7, 24 |
| 6 | Feb 11 & 13 | Health insurance; Moral hazard; Asymmetric information and adverse selection | Ch. 8, 10 |
| 7 | Feb 18 & 20 | Health insurance (cont.); Insurance markets | Ch. 11, 15 |
| 8 | Feb 25 & 27 | Consumer choice and demand | Ch. 9 |
| 9 | March 3 | Mental health | |
| | March 5 | Midterm exam | |
| | March 10 & 12 | <i>Spring break – no class</i> | |
| 10 | March 17 & 19 | Technology and rising costs; nonprofit firms and hospitals | Ch. 6, 13, 14 |
| 11 | March 24 & 26 | Equity and social insurance | Ch. 18, 21 |
| 12 | March 31 & April 2 | Economics of bads and public health | Ch. 23 |
| 13 | April 7 & 9 | Economics of bads (cont.); Production of health | Ch. 23, 6 |
| 14 | April 14 & 16 | Pharmaceutical industry, innovation, patenting policies | Ch. 17 |
| 15 | April 21 & 23 | Pharmaceutical industry (cont.); Technology | Ch. 17 |
| | April 28, 12 pm | Final exam | |
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Schedule and Required Reading List

I. Introduction

Wednesday, January 9

Waldfoegel, J. 1993. The Deadweight Loss of Christmas. *American Economic Review* 83(5):1328–1336.
[read Introduction, Table 1, Conclusion]

Monday, January 14

FGS Chapter 3 Statistical Tools for Health Economists

Wednesday, January 16

FGS Chapter 4 Cost-Benefit Analysis and Economic Evaluation

Cutler, DM and E Richardson. 1998. The Value of Health: 1970-1990. *American Economic Review* 88(2):97–100.
[read entire paper, skipping equations (2) and (3)]

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| Monday, January 21 *** NO CLASS *** |
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Wednesday, January 23

Guest lecture by Prof. Sally Stearns

Kattan, M, SC Stearns, et al. 2005. Cost-Effectiveness of a Home-Based Environmental Intervention for Inner-City Children with Asthma. *The Journal of Allergy & Clinical Immunology* 116(5):1058-1063.
[read entire paper]

Monday, January 28 -- *Problem set #1 due*

FGS Chapter 2 Microeconomic Tools for Health Economists

Wednesday, January 30

Thomas, Duncan, and John Strauss. 1997. “Health and wages: evidence on men and women in urban Brazil,” *Journal of Econometrics* 77(1): 159-185.

Monday, February 4

FGS Chapter 7 Demand for Health Capital

Wednesday, February 6

FGS Chapter 24 Epidemiology and Economics: AIDS in Africa

Fox, Matthew et al. 2004. "The Impact of HIV/AIDS on Labour Productivity in Kenya." *Tropical Medicine and International Health* 9(3):318-324.

Thirumurthy, Harsha, Joshua Graff Zivin, and Markus Goldstein. 2005. "The economic impact of AIDS treatment: labor supply in western Kenya." *Journal of Human Resources* (forthcoming). NBER Working Paper No. 12689. <http://www.nber.org/papers/w11871>

Monday, February 11 -- Problem set #2 due

FGS Chapter 8 Demand and Supply of Health Insurance
FGS Chapter 10 Asymmetric Information and Agency

Wednesday, February 13

Jin, GZ and P Leslie. 2003. The Effects of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards. *Quarterly Journal of Economics* 118(2):409–461.
[read sections I through IV and VII]

Norton, EC and JP Newhouse. 1994. Policy Options for Public Long-Term-Care Insurance. *JAMA – Journal of The American Medical Association* 271(19):1520–1524.
[read entire paper]

Monday, February 18

FGS Chapter 15 (pages 321-328) Small Area Variations

Baicker, K, A Chandra, JS Skinner, et al. 2004. Who You Are and Where You Live: How Race and Geography Affect the Treatment of Medicare Beneficiaries. *Health Affairs* 23(6):VAR33–VAR44.
[read the introduction, results, and conclusion]

Wednesday, February 20

FGS Chapter 11 Organization of Health Insurance Markets

Gruber, J and R McKnight. 2003. Why did Employee Health Insurance Contributions rise? *Journal of Health Economics* 22 (6):1085–1104.
[read entire paper, except sections 3.2 and 3.3]

Monday, February 25 -- Problem set #3 due

FGS Chapter 9 Consumer Choice and Demand

Wednesday, February 27

Manning, WG, JP Newhouse, N Duan, et al. 1987. Health-Insurance and the Demand for Medical-Care – Evidence from a Randomized Experiment. *American Economic Review* 77(3):251–277.
[read entire paper, except statistical methods]

Ashraf, Nava, James Berry, Jesse M. Shapiro. 2007. “Can higher prices stimulate product use? Evidence from a randomized field experiment in Zambia.” NBER Working Paper No. 13247.
<http://www.nber.org/papers/w13247>

Monday, March 3

Guest lecture by Prof. Marisa Domino

Frank, RG, HA Huskamp, TG McGuire, and JP Newhouse. 1996. Some Economics of Mental Health ‘Carve-outs.’ *Archives of General Psychiatry* 53(10):933–937.
[read entire paper]

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| Wednesday, March 5 | *** MIDTERM *** |
| Monday, March 10 | *** NO CLASS *** |
| Wednesday, March 12 | *** NO CLASS *** |

Monday, March 17

FGS Chapter 13 Nonprofit Firms
FGS Chapter 14 Hospitals and Long-term Care

Wednesday, March 19

McClellan, M, BJ McNeil, and JP Newhouse. 1994. Does More Intensive Treatment of Acute Myocardial-Infraction in the Elderly Reduce Mortality – Analysis Using Instrumental Variables. *Journal of The American Medical Association* 272(11):859–866.
[read up through page 861, and the conclusion]

Monday, March 24 -- Problem set #4 due

FGS Chapter 18 Equity, Efficiency, and Need

Miguel, E and M Kremer. 2004. Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities. *Econometrica* 72(1):159–217.

[read up through the first two paragraphs of section 3 (p. 165)]

Wednesday, March 26

FGS Chapter 21 Social Insurance

Almond, DV, KY Chay, and M Greenstone. Forthcoming 2007. Civil Rights, the War on Poverty, and Black-White Convergence in Infant Mortality in Mississippi. *American Economic Review*.

[read TBA]

Duflo, E. 2000. Child Health and Household Resources in South Africa: Evidence from the Old Age Pension Program," *American Economic Review Papers and Proceedings* 90(2):393-398.

Monday, March 31

FGS Chapter 23 Health Economics of Bads

Lakdawalla, D and TJ Philipson. Economics of Obesity. 2006. Chapter 7. The Elgar Companion to Health Economics edited by Andrew M. Jones. Edward Elgar Publishing: Northampton, MA.

[read entire paper]

Wednesday, April 2

Manning, WG, EB Keeler, JP Newhouse, et al. 1989. The Taxes of Sin – Do Smokers and Drinkers Pay Their Way? *Journal of The American Medical Association* 261(11):859–866.

[read entire paper]

Cutler, DM, J Gruber, RS Hartman, RS, et al. 2002. The Economic Impacts of the Tobacco Settlement. *Journal of Policy Analysis and Management* 21(1):1–19.

[read entire paper]

Monday, April 7 -- Problem set #5 due

Dupas, P. 2006. "Relative Risks and the Market for Sex: Teenagers, Sugar Daddies, and HIV in Kenya." Unpublished manuscript, Dartmouth College. http://homepages.nyu.edu/~pd482/Dupas_RelativeRisks.pdf

Wednesday, April 9

FGS Chapter 6 Production of Health

Cutler, D and G Miller. 2005. The Role of Public Health Improvements in Health Advances: The Twentieth-century United States. *Demography* 42(1):1–22.

[read pp. 1–8, 10–14, Conclusion]

Monday, April 14

FGS Chapter 17 Pharmaceutical Industry

DiMasi, JA, RW Hansen, and HG Grabowski. 2003. The Price of Innovation: New Estimates of Drug Development Costs. *Journal of Health Economics* 22(2):151–185.

[read sections 1, 2, 4, 5, and 9]

Wednesday, April 16

Kremer, M. 2002. Pharmaceuticals and the Developing World. *Journal of Economic Perspectives* 16(4):67-90.

Monday, April 21 -- Problem set #6 due

Kremer, M. 2002. Pharmaceuticals and the Developing World. *Journal of Economic Perspectives* 16(4):67-90.

Lanjouw, Jean O. 2001. A Patent Policy Proposal for Global Diseases. Brookings Institution.

http://www.brookings.edu/papers/2001/0611development_lanjouw.aspx

Wednesday, April 23

FGS Chapter 14 Technology

Newhouse, JP. 1992. Medical-Care Costs – How Much Welfare Loss. *Journal of Economic Perspectives* 6(3):3–21.

[read up through “Was technological change induced by insurance?”]

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| Monday, April 28, 12:00 pm | *** FINAL EXAM *** |
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