

**Oakland University School of Business Administration**  
**Department of Economics**  
**ECN 3670: Economics of Health Care (3 credit hours) – Winter 2018**  
T 6:30PM – 9:20PM, O'Dowd Hall 202A

**Professor:** Dr. Timothy Hodge  
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**Office Hours:** TTh 1:00-3:00PM; and by appointment

**Description**

Application of tools of economic analysis to the health care industry and government health care policy. Examines the impact of the special characteristics of health care and the medical services industry on the pattern of health care produced, its distribution and resource allocation within the industry.

**Prerequisites**

A minimum grade of 2.0 must be achieved in the following courses to participate in ECN 3670:

Economics – ECN 2010 (Principles of Microeconomics) along with ECN 2000 (Principles of Macroeconomics) or ECN 2020 (Principles of Global Macroeconomics); OR ECN 2100 (Principles of Economics)

**Objectives**

The primary purpose of the course is to examine the framework and analytical methods economists use to study the health economy and address key policy issues. Students need to be very comfortable with basic economic tools (e.g. demand-supply, elasticity, marginal analysis, production functions).

By the end of the course, students will be familiar with:

- 1) The role of the health sector in the U.S. economy and the major health players.
- 2) The role of markets in consumption and production decisions.
- 3) The nature of information problems in health care and their effects.
- 4) The role of insurance and the organization of insurance markets.
- 5) Specific health care markets such as the pharmaceutical and hospital industries.
- 6) Major government programs and policy issues.
- 7) Other health care systems.

**Text**

- 1) Folland, Goodman, & Stano (FGS), *The Economics of Health and Health Care*, Eighth Edition, Routledge.
- 2) Academic journal articles (see *Tentative Schedule*) will be made available on the course website.

**Grading**

<b>Homework (3)</b>	<b>15%</b>	
<b>Academic Journal Reports (3)</b>	<b>15%</b>	
<b>Presentation</b>	<b>5%</b>	
<b>Exam 1</b>	<b>20%</b>	<b>(February 13)</b>
<b>Exam 2</b>	<b>20%</b>	<b>(March 20)</b>
<b>Exam 3</b>	<b>20%</b>	<b>(April 24)</b>
<b>Class Participation</b>	<b>5%</b>	

**Homework**, 15% of course grade. Three assignments will be given throughout the semester. These are designed to help you understand class material and be prepared for the exams. Assignments are due at the beginning of the class period indicated on each assignment. Late assignments will not be accepted. Students are encouraged to work together; however, each student must turn in their own answers – this prevents “free-riding” and hopefully reduces negative consequences on an individual’s exam. Although I do anticipate working together will produce similar answers, I do not expect to see any copied answers (copying=cheating). I have a zero tolerance policy for cheating and will immediately refer any cases to the Academic Conduct Committee. Penalties for cheating will result in a 0.0 for the assignment and may lead to additional penalties (see *Academic Code of Conduct*).

In the event that a student is sick or unable to attend class when an assignment is due, it is up to the student to contact the professor to make other arrangements. If I do not hear anything from you by phone or e-mail prior to the assignment’s due date, the assignment will be considered late.

**Academic Journal Reports**, 15% of course grade. During the semester, non-textbook readings on topics related to health care and health economics will be required. You must select three papers from the tentative schedule at the end of the syllabus on which to write a report. The paper you present (see *Presentation*) may not be included as one of your journal reports. Each report must be from a different topic and must discuss the following:

1. A statement of the author’s objective in writing the paper.
2. A summary of the paper including the major findings.
3. Relate the article to class material (e.g. Does the article confirm or dispute what was discussed in class? How? How does the article add to what was discussed in class?). Be specific.
4. Your reaction to the article.

Each report must be typed in Times New Roman 12-point font, single-spaced, and have one-inch margins (top, bottom, right, and left). It should be a minimum of one page and free of grammatical/spelling errors. Although you choose which papers to write about, reports are due the week after we discuss their corresponding topic. These will be scored on a check plus/check/check minus basis (check plus = excellent; check = fine/good; check minus = incomplete/problematic).

**Presentation**, 5% of course grade. In addition to writing academic journal reports, each student will be paired with at least one classmate to lead the class in a discussion about one of the articles (group’s choice) from the topic you are assigned. The format of the presentation should be similar to the format of academic journal reports and presentations should be roughly 10-15 minutes in length (approximately 10 PowerPoint slides).

**Exams**, 60% of course grade (20% each). Three in-class exams will be administered during the semester

*Exam 1: February 13*

*Exam 2: March 20*

*Exam 3: April 24 (7PM)*

Each exam will cover approximately 1/3 of the course content. I will provide simple calculators that perform the four basic arithmetic operations (+, -, \*, /) for each exam. Use of any other material or device during an exam is prohibited, including: books, notes, cell phones, smart watches, tablets, friends, etc. Again, I have a zero tolerance policy for cheating and will immediately refer any cases to the Academic Conduct Committee. Penalties for cheating will result in a 0.0 for the exam and may lead to additional penalties (see *Academic Code of Conduct*).

Students are responsible for taking exams at the scheduled times. Any missed exam without prior notifications and approval will result in a zero for that exam. If you have a legitimate reason to miss an exam (illness, death in the family, prior engagements such as a team event, etc.), you will be allowed to take a makeup test only if you contact me before the date/time of the exam. For those who have prior engagements (e.g. student-athletes) and have made arrangements for taking the exam at a different date, please note that makeup exams may be scheduled for a date prior to the actual exam date.

**Class Participation**, 5% of course grade. You are expected to read the assigned material prior to class and actively participate in class discussions. Your grade for this portion of the class will be based on the quality of your contribution to the discussions.

### **Grade Scale**

90-100% = 3.6 - 4.0  
80 - 89% = 3.0 - 3.5  
70 - 79% = 2.0 - 2.9  
60 - 69% = 1.0 - 1.9  
< 60% = 0.0

It is good practice to keep all your assignments and tests until you receive your final grade. You may also want to keep all course materials indefinitely if you are planning to transfer to another university or do graduate work in economics, health, or a related field.

### **Attendance**

Consistent attendance is essential for acceptable performance in the course. Based on my experience, students who miss class on a regular basis perform substantially worse than students who attend regularly. If you miss a class, you must ask one of your classmates for the material you missed. Also, be on time. It is disruptive and disrespectful to walk in late.

### **Classroom Conduct**

Conduct yourselves in a way that contributes to a positive learning environment. Treat others with respect. Give the speaker your attention when he/she has the floor, whether it's me or one of your classmates. Put away cell phones, laptops, and other electronic devices when class starts. If you must use the phone for any reason, please leave the room. If you choose to use a computer for taking notes, please refrain from behavior that will disrupt your fellow classmates (i.e. instant messaging, looking at facebook, surfing the internet, etc.).

### **E-mail Communications**

Please use your Oakland e-mail address to correspond with me via e-mail. I will only respond to Oakland e-mail accounts. When you send me an e-mail, use it as an opportunity to work on your formal written communication skills. Please do your best to compose a well-written and professional message, using complete sentences and correct grammar/punctuation.

### **Accommodation of Student with Special Needs**

Students with disabilities who believe they may need accommodations in this class are encouraged to contact [Disability Support Services](#) at (248) 370-3266 or [dss@oakland.edu](mailto:dss@oakland.edu). Please do this as soon as possible to ensure that such accommodations are implemented in a timely fashion.

### **Academic Code of Conduct**

Academic dishonesty will not be tolerated. In addition to imposing a 0.0 for an assignment, penalties ranging from a grade of 0.0 for the course up to suspension from the University may be administered. I report all cases of academic dishonesty to the Academic Conduct Committee for adjudication. It is University policy to record all academic dishonesty convictions permanently on the student's transcript.

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## Tentative Course Outline – ECN 3670

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\* Denotes non-textbook reading that may be used for academic journal reports

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### Basics

**Weeks 1 & 2:** Introduction and Micro Review

**Reading(s):** FGS 1 – Introduction

FGS 2 – Microeconomic Tools for Health Economics (review as needed)

- \*Aaron and Ginsburg. (2009) “Is Health Spending Excessive? If so, What Can We Do About It?” *Health Affairs*. 28(5): 1260-1275.
- \*Fuchs. (2015) “Major Concepts of Health Care Economics” *Annals of Internal Medicine*. 162: 380-383.
- \*Keehan et al. (2016) “National Health Expenditure Projections, 2015-25: Economy, Prices, and Aging Expected to Shape Spending and Enrollment” *Health Affairs*. 35(8): 1522-1531.
- \*Weisbrod. (1991) “The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care and Cost Containment” *Journal of Economic Literature*. 29(2): 523-552.

**Weeks 3 & 4:** Supply and Demand of Health and Health Care

**Reading(s):** FGS 5 – Production of Health

FGS 7 – Demand for Health Capital

FGS 6 – The Production, Cost, and Technology of Health Care

FGS 9 – Consumer Choice and Demand

- \*Baird, McIntosh, and Ozler. (2011) “Cash or Condition? Evidence from Cash Transfer Experiment” *Quarterly Journal of Economics*. 126: 1709-1753.
- \*Lleras-Muney. (2005) “The Relationship Between Education and Adult Mortality in the United States” *Review of Economic Studies*. 72(1): 189-221.
- \*Wagstaff. (1986) “The Demand for Health: Theory and Applications” *Journal of Epidemiology and Community Health*. 40: 1-11.
- \*Zagorsky and Smith. (2017) “The Association Between Socioeconomic Status and Adult Fast-Food Consumption in the U.S.” *Economics and Human Biology*. 27: 12-25.

**Week 5:** Information Issues

**Reading(s):** FGS 10 – Asymmetric Information and Agency

FGS 15 – The Physician’s Practice

- \*Cutler and Reber. (1998) “Paying for Health Insurance: The Trade-Off Between Competition and Adverse Selection” *Quarterly Journal of Economics*. 113(2): 433-466.
- \*Dranove, Kessler, McClellan, and Satterthwaite. (2003) “Is More Information Better? The Effects of ‘Report Cards’ on Health Care Providers” *Journal of Political Economy*. 111(3): 555-588.
- \*Einav, Finkelstein, Ryan, Schrimpf, and Cullen. (2013) “Selection on Moral Hazard in Health Insurance” *American Economic Review*. 103(1): 178-219.
- \*Kessler and McClellan. (1996) “Do Doctors Practice Defensive Medicine?” *The Quarterly Journal of Economics*. 111(2): 353-390.

**Assignment:** Homework 1

**Week 6: EXAM 1 (February 13)**

**Week 7: Winter Recess**

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## *Tentative Course Outline (cont'd) – ECN 3670*

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\* Denotes non-textbook reading that may be used for academic journal reports

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### **Health Care Organizations**

**Week 8: Insurance and Managed Care****Reading(s):** FGS 8 – Demand and Supply of Health Insurance

FGS 11 – The Organization of Health Insurance Markets

FGS 12 – Managed Care

- \*Aron-Dine, Einav, and Finkelstein. (2013) “The RAND Health Insurance Experiment, Three Decades Later” *The Journal of Economic Perspectives*. 27(1): 197-222.
- \*Gruber and Madrian. (2002) “Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature” NBER Working Paper.
- \*Levy and Meltzer. (2008) “The Impact of Health Insurance on Health” *Annual Review of Public Health*. 29: 399-409.
- \*Manning et al. (1987) “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment” *American Economic Review*. 58: 531-38.

**Week 9: Nonprofit Firms and Hospitals****Reading(s):** FGS 13 – Nonprofit Firms

FGS 14 – Hospitals and Long-Term Care

- \*Eggleston et al. (2008) “Hospital Ownership and Quality of Care: What Explains the Different Results in the Literature?” *Health Economics*. 17(12): 1345-1362.
- \*Gaynor, Ho, and Town. (2015) “The Industrial Organization of Health-Care Markets” *Journal of Economic Literature*. 53(2): 235-284.
- \*Norton and Staiger. (1994) “How Hospital Ownership Affects Access to Care for the Uninsured” *RAND Journal of Economics*. 25(1): 171-185.
- \*Pauly and Redisch. (1973) “The Not-For-Profit Hospital as a Physicians’ Cooperative” *American Economic Review*. 63: 87-99.

**Week 10: Health Care Professionals and Pharmacy****Reading(s):** FGS 16 – Health Care Labor Markets and Professional Training

FGS 17 – The Pharmaceutical Industry

- \*Berndt. (2001) “The U.S. Pharmaceutical Industry: Why Major Growth in Time of Cost Containment?” *Health Affairs*. 20(2): 1-15.
- \*Cutler and McClellan. (2001) “Is Technological Change in Medicine Worth It?” *Health Affairs*. 20(5): 11-29.
- \*Grabowski. (2011) “Evolving Brand-Name and Generic Drug Competition May Warrant a Revision of the Hatch-Waxman Act” *Health Affairs*. 30(11): 2157-2166.
- \*Lichtneberg. (2001) “Are the Benefits of Newer Drugs Worth Their Costs? Evidence from the 1996 MEPS” *Health Affairs*. 20(5): 241-251.

**Assignment:** Homework 2

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### **Week 11: EXAM 2 (March 20)**

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## *Tentative Course Outline (cont'd) – ECN 3670*

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\* Denotes non-textbook reading that may be used for academic journal reports

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### **Government, Goals, and Reform**

**Week 12:** Government Intervention/Regulation

**Reading(s):** FGS 19 – Government Intervention in Health Care Markets  
FGS 20 – Social Insurance

- \*Ahuja, Baird, Hamory Hicks, Kremer, and Miguel. (2015) “When Should Governments Subsidize Health? The Case of Mass Deworming” *World Bank Economic Review*. 29: 9-24.
- \*Currie and Gruber. (1996) “Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women” *Journal of Political Economy*. 104(6): 1263-1296.
- \*Finkelstein and McKnight. (2008) “What Did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending” *Journal of Public Economics*. 92(7): 1644-1668.
- \*Pauly. (1974) “Overinsurance and Public Provision of Insurance: The Roles of Moral Hazard and Adverse Selection” *Quarterly Journal of Economics*. 88(1): 44-62.

**Weeks 13 & 14:** Reform

**Reading(s):** FGS 18 – Equity, Efficiency, and Need  
FGS 22 – Health System Reform

- \*Case, Lubotsky, and Paxson. (2002) “Economic Status and Health in Childhood: The Origins of the Gradient” *American Economic Review*. 92(5): 1308-1334.
- \*Chetty et al. (2016) “The Association Between Income and Life Expectancy in the United States, 2001-2014” *JAMA*. 315(16): 1750-1766.
- \*Gruber. (2008) “Covering the Uninsured in the United States” *Journal of Economic Literature*. 46(3): 571-606.
- \*Holtz-Eakin and Ramlet. (2010) “Health Care Reform is Likely to Widen Federal Budget Deficits, Not Reduce Them” *Health Affairs*. 29(6): 1136-1141.
- \*Fuchs. (1996) “Economics, Values, and Health Care Reform” *American Economic Review*. 86(1): 1-24.
- \*Smith. (1999) “Healthy Bodies and Thick Wallets: The Dual Relation Between Health and Economic Status” *Journal of Economic Perspectives*. 13(2): 145-167.
- \*Wagstaff and van Doorslaer. (2000) “Income Inequality and Health: What Does the Literature Tell Us?” *Annual Review of Public Health*. 21: 543-567.

**Week 15:** International Health Systems

**Reading(s):** FGS 21 – Comparative Health Care Systems

**Assignment:** Homework 3

**Finals Week: EXAM 3 (April 24 @ 7PM)**