

**University of Wisconsin  
Department of Economics  
Economics 548: The Economics of Health Care  
Spring 2009**

**Korinna K. Hansen**

|                |                              |                      |              |
|----------------|------------------------------|----------------------|--------------|
| <b>Office:</b> | 6414 Social Science Building | <b>Office Hours:</b> |              |
| <b>Phone:</b>  | 262-6853 (Office)            | Monday               | 1:00–2:00 pm |
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**COURSE DESCRIPTION**

This is a course in applied microeconomics. It is designed for students who already understand basic consumer and producer theory, and focuses on how health care markets differ from other markets. Because of asymmetric information, uncertainty, government involvement, and externalities, the economics of the health care sector and its players (patients, providers, insurers, employers, and government) requires a special analysis. We will learn how to apply microeconomic tools to study the medical care system and analyze the economic aspects of health care policy implications.

Prerequisite: Economics 301 or Public Affairs 880.

**COURSE REQUIREMENTS**

1. Problem Sets (10% of grade).
2. Midterm Examination (20% of grade).  
In class, **March 2**.
3. Term paper (20% of grade).  
Due date: **May 8, 8:50 a.m.**
4. Class Presentation (10% of grade).
5. Class Participation (10% of grade).
6. Final Examination (30% of grade).  
Covers all material

Required Textbook and Readings:

**Charles E. Phelps**, *Health Economics*, Addison-Wesley, third edition, 2003. (Hereafter Phelps). C.E. Phelps, *Health Economics* is the main textbook for the course. You can find copies of this book at the bookstore and it is also physically on reserve at the College Library (Helen C. White Hall). **All supplemental readings can be accessed through your electronic reserves for our class.** (Get to MyUW, select academic and find our class, click on e-reserves.)

Problem Sets, and other course material will be posted in the course website:  
**[www.ssc.wisc.edu/~kohansen](http://www.ssc.wisc.edu/~kohansen)**

This is an economics course. You cannot do well in this class unless you **thoroughly understand the economic models and graphs** covered in class. You will often find your old microeconomics notes and book helpful. Keep them handy for general reference on economic tools/arguments we will use.

The course outline that follows gives the chapters and articles that correspond to the lectures. Optional readings are truly optional. You are expected to come to class prepared and participate. Try to at least skim the relevant material before class and study it well afterwards. In the past, students have found it beneficial to summarize some of the readings and material we cover for an easier review when preparing for exams.

There is a class presentation and paper requirement for this course. Some of the topics in the course outline (marked with \*\*) will be presented by students, in-groups of four or five. After receiving your topic assignment you will need to read the relevant material from the course outline, discuss it in your group, and prepare to present it to the class. All students of every group will have to present for about 10 minutes each. You are also expected to do a thorough library search on the same topic, and carefully present a critical review of the relevant literature in a group paper. Your class presentation should cover the most important information in your topic. The joint 20-30-page paper should be a lot more detailed and should rely on a large number of good sources. I will guide you with your literature search, and organization of ideas. I will help you prepare for your presentation and read first drafts of the paper. The whole experience should be educational and enjoyable.

**Quality** class participation is also very important for this class. You should always feel free to ask questions and express your opinion. I reserve the right to sometimes answer questions after class.

The problem sets have been constructed carefully and will serve as an excellent practice for the exams. You are strongly encouraged to work together with classmates when solving problem set questions, but complete and turn in **your own**. Students who are regular members of study groups have done significantly better and also have enjoyed the process more. No late problem sets will be accepted.

## COURSE OUTLINE

INTRODUCTION TO ECONOMICS & THE HEALTH CARE SYSTEM (Jan. 21, 23 & 26).

**Phelps**, Chapters 1 & 2.

**Anderson, Gerald F. et al.**, 1999, "Health Spending, Access, And Outcomes: Trends In Industrialized Countries", *Health Affairs*, Vol. 18, No. 3, pp. 178-192.

**Anderson, Gerald F. et al.**, 2001, "Comparing Health System Performance In OECD Countries", *Health Affairs*, Vol. 20, No. 3, pp. 219-232.

**Gerald F. Anderson, Bianca K. Frogner**, 2008, "Health Spending in OECD Countries: Obtaining Value per Dollar", *Health Affairs*, Vol. 27, No. 6, pp. 1718-1727.

Optional:

**Anderson, Gerard F. et al.**, 2007, "Health Spending in OECD Countries In 2004: An Update", *Health Affairs*, Vol. 26, No. 5, pp. 1481-1489.

**Sean Keehan et al.**, published online on Feb. 26, 2008, "Health Spending Projections Trough 2017: The Baby boom Generation Is Coming to Medicare", *Health Affairs*, Vol. 27, No. 2, w 145-155, published online 26 Feb. 2008.

**Aaron Catlin, Cathy Cowan, Micah Hartman, Stephen Heffler, and the National Expenditures Accounts Team**, 2008, "National Health Spending in 2006: A year of change for Prescription Drugs.", *Health Affairs*, Vol. 27, No. 1, pp. 14-29.

## THE TRANSFORMATION OF MEDICAL CARE TO HEALTH (Jan. 28 & 30).

**Phelps**, Chapter 3.

Optional:

**Baicker, Katherine et. al.**, 2006. "Geographic Variation In The Appropriate Use of Cesarean Delivery", *Health Affairs web exclusive*, August 8, 2006, w 355-w367.

## PATIENT DEMAND FOR MEDICAL CARE - MORAL HAZARD (Feb. 2, 6, 9, 11).

**Phelps**, Chapters 4 & 5 (except pp. 155-170).

## LIBRARY SESSION IN MEMORIAL LIBRARY ROOM 436. (February 4). PROVIDER SUPPLY OF MEDICAL CARE

1. PHYSICIANS (Feb. 13, 16 & 18).

**Phelps**, Chapters 6 & 7.

**Rivo, Marc L. et al.**, 1996, "A Report Card On The Physician Work Force In The United States", *The New England Journal of Medicine*, Vol. 334, No. 14, pp. 892-896.

2. HOSPITALS (Feb. 20, 23 & 25).

**Phelps**, Chapters 8 & 9 (except pp. 301-311).

Optional:

**Radach Spang, Heather et al.**, 2001, "Hospital Mergers And Savings For Consumers: Exploring New Evidence", *Health Affairs*, Vol. 20, No. 4, pp. 150-158.

## CASE STUDY: (Feb. 27) "Medicine and the Profit Motive: The Proposed Sale of McLean Hospital", Kennedy School of Government.

Optional:

**Blumenthal, David et al.**, 2000, "Selling Teaching Hospitals To Investor-Owned Hospital Chains: Three Case Studies", *Health Affairs*, Vol. 19, No. 2, pp. 158-166.

## MIDTERM EXAMINATION ----- March 2.

### HEALTH INSURANCE

1. DEMAND AND SUPPLY OF HEALTH INSURANCE (March 4, 6, 9, 11).

**Phelps**, Chapter 10.

**Cathy Schoen, Sara R. Collins, Jennifer L. Kriss and Michelle M. Doty**, published online June 10, 2008, "How Many Are Underinsured? Trends Among US Adults 2003 And 2007", *Health Affairs*, Vol. 27, No. 4, w298-309.

**John Holohan, and Allison Cook**, published online on Feb. 20, 2008, "The US Economy And Changes in Health Insurance Coverage 2000-2006", *Health Affairs*, Vol. 27 No. 2, w135-w144.

**Minicozzi, Alexandra**, 2006, "Medical Savings Accounts: What Story Do The Data Tell?" *Health Affairs*, Vol. 25, No. 1, pp. 256-267.

2. MANAGED CARE (March 13 & 23).

**Phelps**, Chapter 11.

**Dudley, Adams R.**, 2001, "Managed Care In Transition", *The New England Journal of Medicine*, Vol. 344, No. 14, pp. 1087-1092.

**Miller, Robert H. et al.**, 2002, "HMO Plan Performance Update: An Analysis Of The Literature, 1997-2001", *Health Affairs*, Vol. 21, No. 4. pp. 63-86.

Optional:

**Glied, Sherry**, 2000 "Managed Care", Chapter 13 in: *Handbook of Health Economics*, (A.J. Culyer and J.P. Newhouse editors).

**CASE STUDY:** (March 25) "**Tufts Health Plan**", **Harvard Business School.**

3. EMPLOYER SPONSORED HEALTH INSURANCE (March 27)

**Blumenthal, David, 2006**, "Employer-Sponsored Health Insurance in the United States – Origins and Implications", *New England Journal of Medicine*, Vol. 355, No. 1, pp. 82-88.

**Blumenthal, David, 2006**, "Employer-Sponsored Insurance – Riding the Health Care Tiger", *New England Journal of Medicine*, Vol. 355, No. 2, pp. 195-202.

**David M. Cutler**, 2003, "Employee Costs and the Decline in Health Insurance Coverage", in *Frontiers in Health Policy Research*, edited by David M. Cutler and Alan M. Garber, pp. 27-53.

Optional:

**Enthoven, Alain C. et al.**, 2006, "Employment-Based Health Insurance: Past, Present, And Future", *Health Affairs*, Vol. 25, No. 6, pp. 1538-1547.

**Paul B. Ginsburg**, 2008, "Employment-Based Health Benefits Under Universal Coverage" *Health Affairs*, Vol. 27, No. 3, pp. 675-685.

**Martin J. Sepulveda**, Thomas Bodenheimer, and Paul Grundy, 2008, "Primary Care: Can't Solve Employer's Health Dilemma?", *Health Affairs*, Vol. 27, No. 1, pp. 151-158.

**CASE STUDY:** (March 30) "**Managing Health Care at Ford Motor Company**", **Harvard Business School.**

**\*\*NURSES AND THE NURSING MARKET** (April 1)

**Phelps**, Chapter 9, pp. 301-311.

**Needleman, Jack et. al**, 2006, "Nurse Staffing in Hospitals: Is there a business Case for Quality?" *Health Affairs*, Vol. 25, No. 1, pp. 204-211.

**Aiken, Linda H.**, 2003, "Educational Levels of Hospital Nurses and Surgical Patient Mortality", *The Journal of the American Medical Association*, Vol. 290, No. 12, pp. 1617-1623.

Optional:

**Hansen, Korinna K.**, 1991, "Testing Monopsony in the U.S. Nursing Market", Wellesley College Working Paper.

**\*\*GOVERNMENT HEALTH CARE PROGRAMS: MEDICARE** (April 3).

**Phelps**, Chapter 12.

**Moon, Marilyn**, 2001, "Medicare", *The New England journal of Medicine*, Vol. 344, No. 12, pp. 928-931.

Optional:

**Zwanziger, Jack, and Bamezai, Anil**, 2006, "Evidence of Cost Shifting In California Hospitals", *Health Affairs*, Vol. 25, No. 1, pp. 197- 203.

**Lichtenberg, Frank R. et al.**, 2007, "The Impact of Medicare Part D On Prescription Drug Use by the Elderly", *Health Affairs*, Vol. 26, No. 6, pp. 1735-1744.

**\*\*GOVERNMENT HEALTH CARE PROGRAMS: MEDICAID (April 6).**

**Phelps**, 2003, "Other Government Health Care Programs", Online Chapter 13, in "http://wps.aw.com/aw\_phelps\_health\_econ\_3" and also on e-reserve at the College Library.

**Rosenbaum, Sara**, 2002, " Medicaid", *The New England journal of Medicine*, Vol. 346, No. 8, pp. 635-640.

Optional:

**Brian K. Bruen and Laura M. Miller**, 2008, "Changes in Medicaid Prescription Volume And Use in the Wake of Medicare Part D Implementation", *Health Affairs*, Vol. 27, No. 1, pp. 196-202.

**CASE STUDY: (April 8) "Matters of Life and Death: Defunding Organ Transplant in the State of Arizona", Kennedy School of Government.**

Optional:

**McCall, Nelda**, 1997, "Lessons From Arizona's Medicaid Managed Care Program", *Health Affairs*, Vol. 16, No. 4, pp.194-199.

**MEDICAL MALPRACTICE (April 10 & 13).**

**Phelps**, Chapter 13.

Optional:

**Studdert, David M., et al.**, 2004, "Medical Malpractice", *The New England Journal of Medicine*, Vol. 350, No. 3, pp. 283-292.

**Studdert, David M., et al.**, 2005, "Defensive Medicine Among High-Risk Specialist Physicians in a Volatile Malpractice Environment", *The Journal of the American Medical Association*, Vol. 293, No. 21, pp. 2609-2617.

**Mohr, James C.**, 2000, "American Medical Malpractice Litigation In Historical Perspective", *The Journal of the American Medical Association*, Vol. 283, No. 13, pp. 1731-1737,

**\*\*EXTERNALITIES IN HEALTH AND MEDICAL CARE (April 15, 17, 20, \*\*22, 24).**

**Phelps**, Chapter 14.

**Manning, Willard, et al.**, 1989, "The Taxes Of Sin", *The Journal of the American Medical Association*, pp. 1604-1609.

**Ziv, Tal Ann & Lo, Bernard**, 1995, " Denial Of Care To Illegal Immigrants: Proposition 187 in California", *The New England Journal of Medicine*, Vol. 332, No. 16, pp. 1095-1098.

**\*\*GOVERNMENT REGULATION (April 27)**

**Phelps**, Chapter 15, up to page 521.

**\*\*FDA - PHARMACEUTICALS (April 29)**

**Phelps**, Chapter 15 (only pp. 521 – end of chapter)

**Scherer, F.M.**, 2004, “The Pharmaceutical Industry – Prices and Progress”, *The New England Journal of Medicine*, Vol. 351, No. 9, pp. 927-932.

**Grabowski, Henry G. and Wang, Richard Y.**, 2006, “The Quantity And Quality Of Worldwide New Drug Introductions, 1982-2003”, *Health Affairs*, Vol. 25, No. 2, pp. 452-460.

Optional:

**Scherer, F. M.**, 2000, “The Pharmaceutical Industry”, Chapter 25 in: *Handbook of Health Economics*, (A.J. Culyer and J.P. Newhouse editors).

**\*\*MEDICAL TECHNOLOGY (May 1)**

**Newhouse, Joseph P.**, 1992, "Medical Care Costs: How Much Welfare Loss?", *The Journal of Economic Perspectives*, Vol. 6, No. 3, pp. 3-22.

Optional:

**Cutler, David M. et al.**, 2001, “Is Technological Change In Medicine Worth It?”, *Health Affairs*, Vol. 20, No. 5, pp. 11-29.

**Blumenthal, David**, 2007, “Information Technology Comes to Medicine”, *New England Journal of Medicine*, Vol. 24, pp. 2527-2534.

**\*\*HEALTH CARE AND THE FUTURE (May 4)**

**Fuchs, Victor R., and Emanuel, Ezekiel J.**, 2005, “Health Care Reform: Why? What? When?” *Health Affairs*, Vol. 24, No. 6, pp. 1399-1414.

**\*\*INTERNATIONAL HEALTH (May 6, 8)**

**Phelps**, Chapter 16.