

Economics 3451:001, Fall 2013
MWF 10:10-11:00 am
Classroom: Beach 443

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Office Hours: M 2:30-4:30 & W 2:30-3:30
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HEALTH ECONOMICS (revised 8-28-13)

Overview

Economics, like many fields of study, has become increasingly specialized. One of the younger subfields in our discipline is health economics. A few articles on the subject began to appear in the 1960s, but the bulk of work in this area has been done since 1980. The field has grown particularly fast over the last decade with the national focus on healthcare reform.

The introduction of major public insurance programs (Medicare for the elderly and Medicaid for the poor) in the 1960s, the rapid spread of private health insurance in the 1970s, the dramatic restructuring of healthcare and health insurance markets in the 1980s and 1990s, the escalating cost of medical care over the last several decades, and the increase in chronic health problems such as obesity have stimulated interest in health economics among policymakers, healthcare providers, employers, and the general public. In the early 1990s, it seemed that a consensus had emerged about the need for comprehensive healthcare reform in the U.S., but heated disagreements about the appropriate reforms and subsequent political events led to "incremental" or "piecemeal" changes in the system. Concerns about cost, quality, and access to care continued to prompt calls for healthcare reform, and in March 2010, Congress enacted and President Obama signed the Patient Protection and Affordable Care Act (ACA). Implementation of the ACA has begun and will continue for some years to come.

Course topics will include: health expenditure patterns; demand for healthcare; insurance and its effect on utilization, prices, and expenditures; healthcare production, costs, and supply; asymmetric information and supplier-induced demand; public versus private financing of healthcare; the structure of healthcare markets and managed care; innovative insurance plans; government regulation; and international differences and similarities in healthcare systems.

What to Expect

Through previous studies or even as a healthcare consumer, many of you will be quite familiar with the U.S. healthcare system. I welcome your participation in class discussions and hope you'll share your thoughts and insights with the group. My role is to help with this exchange of ideas and offer an economist's perspective on a variety of healthcare issues. As we progress, the connections between how we finance healthcare, how we insure ourselves against health-related losses, and how healthcare markets operate will become more apparent. These links, in turn, mean that policy changes, legal rulings, market innovations or similar events can ultimately affect consumers, healthcare providers, insurers, and governments—and not always as intended.

I assume that all of you have had microeconomics through the intermediate level (Econ 2201). Santerre and Neun's text (below) provides a very good base, but I'll also cover some topics and analytical methods in class that may not appear in the text. If you miss a class, you should get notes from a classmate (mine are not distributed in class or on the internet). Occasionally, I'll assign additional readings or provide handouts that will be **emailed to you at your UConn email address**. Any PowerPoint slides used in class also will be emailed to you. If you're absent, it's your responsibility to get these assignments from a classmate or me. The required text is:

***Health Economics: Theories, Insights, and Industry Studies, Sixth Edition;*
Rex Santerre and Stephen Neun; Thomson/South-Western, 2013.**

The text has a useful glossary of economic concepts and health terminology (pp. 525-532) and a subject index (pp. 541-552). At the end of each chapter, you'll also find a summary, review questions and problems, online resources, and references.

Date	Topics	Readings
<u>Week 1</u>		
M 8/26	Getting started: course syllabus and overview of topics	3-20
W 8/28	Assignment: empirical project (multivariate regression)	21-33, Handout
F 8/30	Is healthcare subject to economic forces?	35-60
<u>Week 2</u>		
M 9/2	Labor Day (no class)	
W 9/4	Demand for care vs. the demand for health capital	61-82
F 9/6	Empirical project: an example	Handout
<u>Week 3</u>		
M 9/9	Cost-benefit analysis of health interventions	83-90
W 9/11	Valuing life: a willingness-to-pay experiment	91-105
F 9/13	Critical comparisons: alternative healthcare systems	107-119
<u>Week 4</u>		
M 9/16	History and decomposition of U.S. healthcare spending	120-124
W 9/18	State-level comparisons of healthcare spending	
F 9/20	Empirical project: discussion of preliminary topics	
<u>Week 5</u>		
M 9/23	Demand for healthcare and the effects of insurance	125-153
W 9/25	Historical links between insurance and U.S. healthcare demand	
F 9/27	Choosing to insure...or not	155-174
<u>Week 6</u>		
M 9/30	Managed care insurance plans	174-188
W 10/2	Innovative health insurance plans	
F 10/4	The impact of health insurance premiums on wages	
<u>Week 7</u>		
M 10/7	<u>EXAM 1</u> (Chapters 1-6, pp. 3-188; handouts; and other assignments)	
W 10/9	Discuss Exam 1; 1-page research proposal due.	
F 10/11	Guest speaker: Bill Pace, "U.S. healthcare from the insurer's perspective"	
<u>Week 8</u>		
M 10/14	Total, average, and marginal concepts in economics	Handout
W 10/16	Healthcare production and costs	189-221
F 10/18	Guest speaker: Rex Santerre, "The Economics of public health"	

Week 9

M	10/21	Competition in the health sector	223-256
W	10/23	Government intervention in healthcare markets	259-294
F	10/25	Government insurance programs: Medicare and Medicaid	295-317

Week 10

M	10/28	Private health insurance in the U.S.	321-362
W	10/30	The Affordable Care Act	
F	11/1	<u>EXAM 2 (Chapters 1-8, pp. 3-256; handouts; and other assignments)</u>	

Week 11

M	11/4	Discuss Exam 2	
W	11/6	Informal discussion of progress on empirical projects	
F	11/8	Physicians: calling the shots or under fire?	363-396

Week 12

M	11/11	Asymmetric information and supplier-induced demand	
W	11/13	Medical malpractice and legal reforms	
F	11/15	Hospitals: functions, goals, and performance	397-435

Week 13

M	11/18	Drugs and drug insurance	437-463
W	11/20	Drug advertising	
F	11/22	<u>5-page final report on empirical project due</u>	

Week 14 **Fall Semester Recess (11/24 – 11/30)****Week 15**

M	12/2	Nursing homes and the elderly	465-498
W	12/4	Health system reforms: national and state efforts	501-523
F	12/6		

Week 16

COMPREHENSIVE FINAL EXAM (Chapters 1-16, handouts, and other assignments); 10:30 AM – 12:30 PM, Beach 443

Other Sources

The above outline gives a sense of the topics we'll cover. Chapters of the text will comprise the core set of readings. From time to time I'll provide you with copies of short articles or direct you to relevant Internet sites for other information. Some professional journals that might also be of interest include: *Health Affairs*; *Health Care Financing Review*; *Health Policy*; *Health Economics*; *Health Policy, Politics and Law*; *Health Services Research*; *Journal of the American Medical Association*; *Journal of Health Economics*; *International Journal of Health Care Finance and Economics*; *Inquiry*; *Journal of Human Resources*; *Journal of Risk and Insurance*; *Medical Care*; *Medical Care Review*; *Milbank Memorial Fund Quarterly*; *New England Journal of Medicine*; *Social Science and Medicine*; and probably some others that I've overlooked. More

general economics and management journals also contain articles on health, but you may have to track these down on www.repec.org (see IDEAS) or through EconLit or one of the other databases that are accessible through the Babbidge Library's homepage. Also note that each chapter in the textbook ends with a list of specific references. Finally, the library also has a number of edited books containing papers on health-related topics.

I encourage each of you to explore other sources of information (books, government reports, magazines, newspapers, websites, etc.). If you come across something of particular interest, please bring it to our attention. If you currently have (or develop) a strong interest in a particular subject and would like to read further, let me know and I'll try to point you in the right direction.

Empirical Project

The Internet has dramatically expanded our access to data. The purpose of this assignment is to give you some hands-on experience with a simple but useful econometric method that can be used to analyse relationships between variables. I'd like you to develop a *model* that relates a *particular dependent variable* of your choice (hospital expenditures, number of physicians, nursing wages, etc.) to a *set of independent (or "explanatory") variables* that you believe might "explain" differences in dependent variable across the 50 states at a point in time. This "cross-sectional" data for states is readily available at a variety of Internet sites, such as: <http://kff.org/statedata/>, www.cdc.gov/nchs/fastats/, www.census.gov, www.statemaster.com/index.php, www.bea.gov, www.census.gov/compendia/statab/, www.usa.gov/Topics/Reference-Shelf/Data.shtml, www.econdata.net, <http://einstein.library.emory.edu/econlinks.html>, <http://research.stlouisfed.org/fred2/categories>. You may want to use additional statistical methods to analyse the data (descriptive statistics, scatter-plots, correlation, etc.), but the primary and, for this project, *required technique* is *multiple linear regression analysis (multivariate regression)*. Regression analysis can be easily done with older versions of Excel or other statistical software; I'll show you how in class. These will be individual projects. You certainly may discuss your project with classmates, but the work you submit must be your own. On Wednesday, **October 9**, I want you to submit a *1-page research proposal* that briefly describes what you plan to do: the *multivariate relationship* you plan to study; the *specific dependent variable and independent (or "explanatory") variables* you will use; *specific data sources*; and (briefly) *why knowing more about this relationship might be useful*. The proposal will not be graded, but you *must* submit one to receive a grade on the empirical project. On Friday, **November 22**, the *final report (5 double-spaced, typed pages plus the regression output)* will be due. We'll talk more in class about the substance and format of the final report. Your grade on the final report will be based on content (reasonableness of the model) and execution (structure, grammar, spelling, etc.).

Exams, Grading, and Office Hours

I'll base your course grade on your scores on: two mid-term exams (**Monday, October 7** and **Friday, November 1**), the empirical project (due **Friday, November 22**), a comprehensive final exam (**Monday, December 9, 10:30 AM - 12:30 PM**), and any other problem sets or short assignments that are given. Each mid-term will account for about 20% of your course grade and the final will account for about 30%. The empirical study and any short assignments will determine the remainder (about 30%) of your course grade. I reserve the right to adjust these

weights depending on the volume of material covered by each exam and the number of other assignments. My *office hours* this semester are ***Mon 2:30-4:30 PM and Wed 2:30-3:30 PM***, but you're welcome to stop by at other times (***Oak Hall 322***). To be sure I'm there, or to arrange a specific time to meet, call (860-486-4669) or email me: ***Dennis.Heffley@uconn.edu***.

You should already know this, but...

Academic Misconduct in any form is in violation of the University of Connecticut *Student Code*. This includes, but is not limited to: copying or sharing answers on tests or assignments, plagiarism, and having someone else do your assignments. Depending on the act, a student could receive an F grade on the test/assignment, an F grade for the course, and could be suspended or expelled from the University. Please see the discussion of academic misconduct at: http://www.community.uconn.edu/academic_misconduct_faq.html for more details and a full explanation of the University's policies.