

**Health Studies 38400**  
**ADVANCED TOPICS IN HEALTH ECONOMICS**

Winter Quarter, 2011

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Classes: Tuesday 9 :30-11:50am, Medical Center W229  
Office hours: By appointment.

The purpose of this course is to provide substantial exposure to the state of the evidence and the major theoretical and empirical approaches used to study salient issues in health economics. Selected topics may vary from year to year; examples include health capital, health insurance, health behaviors, health care market structure and competition, not-for-profit ownership, payment incentives, and the effects of information on provider behavior (e.g. public reporting and value-based purchasing) and consumer behavior (e.g., advertising and medical decision making). The course is aimed at students who wish to pursue a career in, or related to, health economics. Students will be expected to read each paper in depth, participate in discussions about them, and present and discuss several papers during the quarter. The instructors will assume that students have had prior graduate courses in microeconomics and econometrics or statistics, including the use of linear and nonlinear regression methods.

All required and recommended course readings will be on Chalk. Students are expected to read carefully and be prepared to discuss each paper on the date listed on the syllabus. Grades will be based on class participation (25%), presentation of papers (25%), a mid-term exam (25%) and a final exam (25%).

## **COURSE OUTLINE**

### Week 1 (Jan 4): Health capital (Lead: RC)

- Grossman, Michael, “On the Concept of Health Capital and the Demand for Health,” *Journal of Political Economy*, 1972, 80(2), 223-255.
- Hall, Robert E. and Charles I. Jones, “The Value of Life and the Rise in Health Spending,” *Quarterly Journal of Economics*, 2007, 122 (1), 39-72.
- Becker, Gary S., Tomas J. Philipson, and Rodrigo R. Soares, “The Quantity and Quality of Life and the Evolution of World Inequality,” *American Economic Review*, 2005, 95(1), 277-291.

### Week 2 (Jan 11): Health behaviors (Lead: RC)

- Gruber, Jonathan, “Tobacco at the Crossroads: The Past and Future of Smoking Regulation in the United States.” *Journal of Economic Perspectives*, 2001, 15 (2), 193-212.
- Manning, Willard, Emmett Keeler, Joseph Newhouse, Elizabeth Sloss, and Jeffrey Wasserman, “The Taxes of Sin: Do Smokers and Drinkers Pay Their Way?” *JAMA*, 1989, 261(11), 1604-9.
- Gruber, Jonathan and Botond Koszegi, “Is Addiction 'Rational'? Theory and Evidence,” *Quarterly Journal of Economics*, 2001, 116(4), 1261-1303.

#### Recommended:

- Mokdad, Ali H., James S. Marks, Donna F. Stroup, and Julie L. Gerberding, “Actual Causes of Death in the United States, 2000,” *JAMA*, 2004, 291(1), 1238-1245.

### Week 3 (Jan 18): Health insurance (Lead: RC)

- Arrow, Kenneth. “Uncertainty and the Welfare Economics of Medical Care,” *American Economic Review*, 1963, 53(5), 941-973.
- Rothschild, Michael and Joseph E. Stiglitz, “Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information”, *Quarterly Journal of Economics*, 1976, 90(4), 629-650.
- Chandra, Amitabh, Jonathan Gruber, and Robin McKnight, “Patient Cost-Sharing and Hospitalization Offsets in the Elderly,” *American Economic Review*, 2010, 100(1), 1-24.
- Finkelstein, Amy, 2007, “The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare,” *Quarterly Journal of Economics*, 122(1), 1-37.

#### Recommended:

- Akerlof, George A., “The Market for 'Lemons': Quality Uncertainty and the Market Mechanism,” *Quarterly Journal of Economics*, 1970, 84(3), 488-500.
- Cutler, David, and Sarah Reber, “Paying for Health Insurance: The Tradeoff Between Competition and Adverse Selection,” *Quarterly Journal of Economics*, 1998, 113(2), 433-466.
- Frank, Richard, and Richard Zeckhauser, “Health Insurance Exchanges – Making the Markets Work,” *New England Journal of Medicine*, 2009, 361(12), 1135-1137.

- Glazer, Jacob and Thomas G. McGuire, “Setting Health Plan Premiums to Ensure Efficient Quality in Health Care: Minimum Variance Optimal Risk Adjustment,” *Journal of Public Economics*, 2002, 84(2) 153-173.

Week 4 (Jan 25): Aging and Long-Term Care Insurance (Lead: TK)

- Philipson, Tomas J. and Gary S. Becker, “Old-Age Longevity and Mortality-Contingent Claims,” *Journal of Political Economy*, Vol. 106, No. 3, June 1998, pp. 551–573.
- Finkelstein, Amy and Kathleen McGarry. 2006. Multiple dimensions of private information: Evidence from the long-term care insurance market. *American Economic Review* 96(4):938–958.
- Grabowski and Gruber, “Moral hazard in nursing home use,” *JHE*, 2007

Recommended:

- M Pauly, “The rational nonpurchase of long-term care insurance,” *JPE*, 1990
- Norton EC, “Long-Term Care”, Chapter 17 in *Handbook of Health Economics*, Culyer and Newhouse, Editors, Volume 1B, 2000.

Week 5 (Feb 1): Drugs (Lead: RC)

- CP Adams, VV Brantner. Estimating the cost of new drug development: is it really 802 million dollars? *Health Aff (Millwood)*. 2006 Mar-Apr;25(2):420-8.
- M Kremer , “Creating markets for new vaccines, part I: rationale”, NBER w.7716.
- P Danzon, A Towse, “The economics of gene therapy and of pharmacogenetics. *Value Health*. 2002 Jan-Feb;5(1):5-13.

(Mid-term exam (take-home) due Friday, Feb 4.)

Week 6 (Feb 8): Health care market structure and competition (Lead: TK)

- Kessler D, McClellan M. Is hospital competition socially wasteful? *QJE*, 2000.
- Gaynor M, Vogt W, “Competition among hospitals,” *RAND J*, 2003

Recommended:

- Tay, A. Assessing Competition in Hospital Care Markets: The Importance of Accounting for Quality Differentiation. *Rand Journal of Economics*, 2003, 34(4) 786-815.
- Abraham, Gaynor and Vogt, “Entry and competition in local hospital markets,” *J Industrial Ec*, 2007
- Capps C, Dranove D, Lindrooth RC. Hospital closure and economic efficiency. *J Health Econ*. 2010 Jan;29(1):87-109. Epub 2009 Nov 10. PubMed
- Sloan, Frank A., Gabriel A. Picone, Donald H. Taylor, and Shin-Yi Chou. 2001. Hospital Ownership and Cost and Quality of Care: Is there a Dime's Worth of Difference? *Journal of Health Economics*, 20(1):1–21.

Week 7 (Feb 15): Payment incentives and quality of care (Lead: TK)

- Cutler, DM. The incidence of adverse medical outcomes under prospective payment. *Econometrica*, 1995.
- D Grabowski, “Medicaid reimbursement and the quality of nursing home care,” *JHE*, 2001

Recommended:

- R. Ellis and T. McGuire, “Supply-side and demand-side cost sharing in health care,” *JEP*, 1993
- Meltzer, David, Jeanette Chung, and Anirban Basu. 2002. Does Competition under Medicare Prospective Payment Selectively Reduce Expenditures on High-cost Patients? *RAND Journal of Economics* 33(3):447–468.
- Dranove D, Lindrooth R, White WD, Zwanziger J. Is the impact of managed care on hospital prices decreasing? *J Health Econ.* 2008 Mar;27(2):362-76. Epub 2007 Nov 29.

Week 8 (Feb 22): Physician agency and incentives (Lead: TK)

- McGuire, Thomas G. and Mark V. Pauly. 1991. Physician Response to Fee Changes with Multiple Payers. *Journal of Health Economics* 10(4):386–410.
- Glazer, Jacob and Thomas G. McGuire. 2002. Multiple payers, commonality and free-riding in health care: Medicare and private payers. *Journal of Health Economics* 21(6):1049–1069.
- Sloan and Shadle, “Is there empirical evidence of “Defensive Medicine”?” A reassessment, *Journal of Health Economics*, 2009.

Week 9 (Mar 1): Information 1: Consumer behavior in drug markets (Lead: RC)

- MB Rosenthal, ER Berndt, JM Donohue, RG Frank and AM Epstein, “Promotion of Prescription Drugs to Consumers,” *New England Journal of Medicine*, 346(7):498-505, February 14, 2002.
- ER Berndt and JA Hurvitz, “Vaccine Advance Purchase Agreements for Low-Income Countries: Practical Issues,” *Health Affairs*, 24(3):653-665, May/June 2005.
- ER Berndt, LT Bui, DH Reiley, GL Urban. The roles of marketing, product quality and price competition in the growth and composition of the US antiulcer drug industry. In TM Bresnahan and Robert Gordon (eds) *The economics of new products*, Chicago: University of Chicago Press, 1997: 277-322.

Recommended:

- Conti R. (diffusion paper)

Week 10 (Mar 8): Information 2: Public reporting of health care quality (Lead: TK)

- Glazer, Jacob and Thomas G. McGuire. 2006. Optimal quality reporting in markets for health plans. *Journal of Health Economics* 25(2):295–310.

- Dranove, David, Daniel Kessler, Mark McClellan, and Mark Satterthwaite. 2003. Is More Information Better? The Effects of ‘Report Cards’ on Health Care. *Journal of Political Economy* 111(3):555–588.
- Michael Chernenov, Gautam Gowrisankaran, and Dennis P. Scanlon. Learning and the value of information: Evidence from health plan report cards. *Journal of Econometrics* Volume 144, Issue 1, May 2008, Pages 156-174

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Guidelines for Paper Presentations and Discussions

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For each paper assigned in the course, one student will be assigned primary responsibility for presenting the paper to the class. These presentations will be somewhat informal, without slides or other technology, but a 1-3 page outline should be prepared and brought to class for distribution. You can assume that all students in the course have read the papers carefully and will be ready to discuss.

We expect the student responsible for presenting the paper to be able to include discussion of the following elements of each paper:

1. Policy context/motivating rationale of the paper.
2. Theory: Who are the actors in the model? What do they maximize, and what are the tradeoffs they face? What are the assumptions of the behavioral model required in order to derive theoretical predictions? How standard are these assumptions? Does the empirical data match the proposed agents in the behavioral model?
3. Justification for the choice of empirical model specifics. Explain the methods used. What are the threats to internal and external validity for the proposed empirical approach? How do the authors address them?
4. What are the main results of the paper? How do we interpret the coefficients? What are the limitations? Is the presentation optimal for promoting reader understanding?
5. Conclusions – what are the conclusions and are they warranted?
6. What important questions have not been addressed by this paper that could be interesting and important topics for future research? How would you go about studying them? What are the potential pitfalls?

Non-presenting students should keep these elements in mind and be prepared to discuss them.