

**Public Policy 383 / ECON 277**  
**Health Economics and Public Policy**  
**Spring Quarter 2010**

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Professor: W. G. Manning, Ph.D. (773) 702-2067 Office  
1155 E. 60<sup>th</sup>, Room 193 (773) 702-0926 Fax  
[w-manning@uchicago.edu](mailto:w-manning@uchicago.edu)

Classes: Tuesday, Thursday 10:30-11:50 AM  
Office hours: Monday, Wednesday 10:30-11:45 or by appointment  
Room 224, 1155 E. 60<sup>th</sup>

The major purposes of this course are to provide an overview of the economics of health and of health care markets, and to examine a number of major health care policy issues with special attention to the role of government regulation. Although this course does not provide an overview of the institutional structure of the health care organization and finance in the United States, it should provide enough knowledge of the health care system and the economic analytical tools needed to contribute to current public policy debates about health and health care. SSAD-475 (Wed. 5:30-8:30PM) provides a more detailed description of the health care system in the U.S.

The prerequisites for PP383 are a course in intermediate microeconomics at the level of PP323-324 or Econ 201 series, and a working knowledge of calculus. Students should have had an econometrics or statistics course in linear models at the level of PP311 (or higher) or Econ 210. Students without this background must have the permission of the instructor to register for the course.

The reading for this course is based primarily on articles in the literature, the recent reviews of the field in Culyer and Newhouse (eds.) *Handbook of Health Economics*, North-Holland, 2000; this will be referred to as Handbook. Chapters from the Handbook can be found in CHALK or accessed electronically by going to the library main catalog, entering title and *Handbook of Health Economics*. Students needing an overview of health economics integrated with institutional detail, should read Sherman Folland, Allen Goodman, and Miron Stano, *The Economics of Health and Health Care*, 6th ed., Addison Wesley / Prentice Hall, 2010; hereafter, this text is referred to as FGS. Most readings are on CHALK, except for FGS.

The final grade for the course will be based on two problem sets (15 percent each), a midterm examination (25 percent), a final examination (40 percent), and classroom participation (5 percent).

## Reading List

No \*\* indicates required reading  
\*\* indicates suggested reading.

### I. Introduction

FGS, Chapter 1.

Culyer and Newhouse, "State and Scope of Health Economics," *Handbook*.

Fuchs, *Who Shall Live?*, Introduction and Chap. 1. CHALK.

Fuchs, "The Future of Health Economics," *Journal of Health Economics*, 19, 141-157, 2000.

#### *Background:*

Primer Medicaid, CHALK.\*\* Read for overview if not familiar with program.

Primer Medicare, CHALK.\*\* Read for overview if not familiar with program.

### II. Production of Health

#### *Background*

FGS, Chapter 5.

Snyder and Evans, "The Impact of Income on Mortality: Evidence from the Social Security Notch," *Review of Economics and Statistics*, 88 (3): 482-495, 2006.\*\*

Smith, "Healthy Bodies and Thick Wallets: The Dual Relationship Between Health and Economic Status," *Journal of Economic Perspectives*, 13(2), Spring 1999, 145-66.

Cutler, Deaton, and Lleras-Muney, "The Determinants of Mortality," *NBER Working Paper* 11963, 2006.

#### *Health Capital*

FGS, Chapter 7

Grossman, "Human Capital Model," *Handbook*. Note this is the human capital as applied to health and is sometimes referred to as "health capital."

Grossman, "On the Concept of Health Capital and the Demand for Health," *Journal of Political Economy*, 80(2), 1972, 223-255. Original is a classic.\*\*

*Health Behavior – example, smoking*

FGS, Chapter 24.

Chaloupka and Warner, "Smoking," *Handbook*.

Becker, Grossman, and Murphy, "Rational Addiction and the Effect of Price on Consumption," *The American Economic Review*, 81(2), pp. 237-241, 1991\*\*

Note: We cover insurance in reverse of the seemingly logical order of demand for health insurance followed by demand for health care conditional on insurance status. This reversal is necessary to set up discussion of second-best optimal insurance.

**III. Demand for Health Care**

*Core Theory – ex ante and ex post moral hazard*

FGS, Chapters 8 (Section Moral Hazard), 9

Pauly, "The Economics of Moral Hazard: Comment," *American Economic Review*, 58, 531-537, 1968.

Zweifel, Breyer, and Kifmann, Health Economics, 2<sup>nd</sup> Edition. Springer (2009).\*\* Not on CHALK but reference for those wanting more formal modeling.

*Empirical evidence*

*Nonexperimental literature*

Scitovsky and McCall, "Coinsurance and the Demand for Physician Services: Four Years Later," *Social Security Bulletin*, 40:19-27, 1977. Classic natural experiment in the health economics field.\*\*

Joyce, Escarce, Solomon, and Goldman, "Employer Drug Benefit Plans and Spending on Prescription Drugs," *Journal of the American Medical Association*, October 9, 2002, 288(14): 1733-1739.\*\*

Doyle, "Health Insurance, Treatment and Outcomes: Using Automobile Accidents as Health Shocks," *Review of Economics and Statistics*, May 2005, 87(2): 256-270.

Buchmueller et al., "The effect of health insurance on medical care utilization and implications for insurance expansion: a review of the literature," *Medical Care Research and Review* 62(1): 3-30, 2005.

Zweifel and Manning, "Moral Hazard and Consumer Incentives in Health Care," *Handbook*.

*Experimental literature : Health Insurance Experiment*

*Demand and Cost Results*

Newhouse et al., Free for All, 1993, p. 3-51, 338-345.

Keeler and Rolph, "The Demand for Episodes of Treatment in the Health Insurance Experiment," *Journal of Health Economics*, 7, 337-367, 1988.\*\* Additional detail.

Manning, et al., "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review*, 77, 1987, 251-277.\*\* Additional detail.

Marquis, "Cost Sharing and Provider Choice," *Journal of Health Economics*, 4(2):137-57. 1985.\*\* Additional detail.

*Health Status Results*

Newhouse et al., Free for All, 1993, p. 183-243.

Brook, et al. "Does Free Care Improve Adults' Health? Results from a Randomized Controlled Trial," *New England Journal of Medicine* 309(24): 1426-1434, 1983.\*\* Hard copy available in Crerar. Additional detail for Newhouse et al., Chapter 6.

Keeler et al., "Effects of cost sharing on physiological health, health practices, and worry," *Health Services Research*. 22(3): 279-306, 1987.

**IV. Demand for Health Insurance.**

*Background Information on Health Insurance*

Kaiser Family Foundation, *Employer Health Benefits 2009 Annual Survey*, available at <http://ehbs.kff.org/>

Blumenthal, D., (2006). "Employer-Sponsored Insurance -- Riding the Health Care Tiger," *New England Journal of Medicine* 355(2): 121-123, 2006.

*Choice under Uncertainty and the Demand for Insurance*

*FGS*, Chapter 8 (except last two sections).

Arrow, "Uncertainty and the Economics of Medical Care," *American Economic Review*, 53, 1963, 941-973.\*\*

Cutler and Zeckhauser, "The Anatomy of Health Insurance," in *Handbook*.

- Zeckhauser, "Medical insurance: A case study of the tradeoff between risk spreading and appropriate incentives," *Journal of Economic Theory*, 2(1): 10-26, 1970.\*\*
- Ellis, RP and Manning WG. (2007), "Optimal Health Insurance for Prevention and Treatment," *Journal of Health Economics* 26(6): 1128-1150. \*\*

#### *Adverse Selection*

*FGS, Chapter 11.*

- Akerlof, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics*, 84, 1970, 488-500. Review.\*\*
- Altman, Cutler, and Zeckhauser, "Adverse Selection and Adverse Retention." *American Economic Review*, 88, 1998, 122-126.
- Cutler and Reber, "Paying for Health Insurance: The Tradeoff between Competition and Adverse Selection," *Quarterly Journal of Economics*, 113(2), May 1998, pp. 433-466.
- Buchmueller and Dinardo, "Did Community Rating Induce an Adverse Selection Death Spiral? Evidence from New York, Pennsylvania and Connecticut," *American Economic Review*, 92(1), 2002, 280-294.\*\*
- Simon, K., "Adverse Selection in Health Insurance Markets? Evidence from State Small-Group Health Insurance Reforms," *Journal of Public Economics*, 89, 2005, 1865-1877.\*\*

#### **V. Providers: Hospitals and Physicians**

*FGS, Chapters, 10, 13, 14, 15. (10 and 15 to be read together)*

- Harris, "The Internal Organization of Hospitals: Some Economic Implications," *Bell Journal of Economics*, 8:467 - 482, 1977.\*\*
- Ellis and McGuire, "Hospital Response to Prospective Payment: Moral Hazard, Selection, Practice-Style Effects," *Journal of Health Economics* 15: 257-77, 1996.\*\*
- Norton and Staiger, "How Hospital Ownership Affects Access to Care for the Uninsured," *RAND Journal of Economics*, 25, 171 - 185, 1994.
- Zwanziger and Melnick. "The Effects of Hospital Competition and the Medicare PPS Program on Hospital Cost Behavior Hospital in California," *Journal of Health Economics* 7(4), December 1988, pp. 301-320.\*
- Glied and Zivin, "How Do Doctors Behave When Some (but Not All) of Their Patients Are in Managed Care?" *Journal of Health Economics* 21: 337-353, 2002.\*\*
- McGuire, "Physician Agency," *Handbook*, Ch. 9, 461-535, 2000.\*\*
- Weisbrod, "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment." *Journal of Economic Literature*, 29: 523-552,

1991.

## **VI. Managed Care – Integrated Insurance and Health Care Provision.**

FGS, Chapter 12.

Glied, "Managed Care," *Handbook*.\*\*

Newhouse et al., *Free For All*, Chapters 8, 9.\*\*

Miller and Luft, "Does Managed Care Lead to Better or Worse Quality of Care?", *Health Affairs*, 16, 7-25, 1997.\*\*

Miller and Luft, "HMO Plan Performance Update: An Analysis of the Literature, 1997-2001", *Health Affairs*, 21(4), 63-85, 2002. [Update of Miller and Luft (1997)].

Buchmueller and Feldstein, "Consumers Sensitivity To Health Plan Premiums - Evidence From A Natural Experiment In California", *Health Affairs*, , 15(1), 143-151, 1996. \*\*

Buchmueller and Feldstein, "The Effect of Price on Switching Among Health Plans", *Journal of Health Economics*, 16(2), 231-247, 1997. [Expands on Buchmueller and Feldstein (1996)].\*\*

## **VII. Regulation of Health Care Markets.**

FGS, Chapters 19-20.

## **VIII. Long Term Care and Aging (If time available)**

Grabowski, David C. "Medicaid Reimbursement and the Quality of Nursing Home Care." *Journal of Health Economics* 20 (2001), pp. 549-69.

### **or (but not both)**

Grabowski, D.C. and E.C. Norton. "Nursing home quality of care." In *Elgar Companion to Health Economics*, A.M. Jones, ed. Elgar, 2006.

Pauly, Mark. "The Rational Nonpurchase of Long-Term-Care Insurance." *Journal of Political Economy* 98 (1990), pp. 153-68.\*\*

Finkelstein A. and K. McGarry (2006) "Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market," *American Economic Review* 96(4): 938-58. \*\*

Norton, Edward C. "Long-Term Care." In *Handbook of Health Economics*, Volume 1, eds. A. J. Culyer and J. P. Newhouse. Amsterdam: Elsevier Science, 2000.\*\*

**VIII. Issues from the Health Care Reform Debates.** This section is subject to revision. The specific policy topic will be based on the debate on Health Reform, the passage of a health care reform bill or topics from any reconciliation bill. In 2008 and 2009, we examined issues related to the uninsured (causes and consequences) and a number of alternative approaches to reducing or eliminating uninsurance: employer versus individual mandates, pay-or-pay plans, and refundable tax credits based on the 2008 Election and primaries. Many of those issues are a part of the Senate bill passed in December 2009.

See the material from Clinton, McCain, and Obama, as well as the tabular summary of the alternatives in the zipped file `Candidates_Health_Plans` in CHALK. The tabular summary predates some of the McCain announcements that should be captured in the pdf from his campaign. Some elements of these three approaches have been considered in both the House and Senate versions of the health reform bill, while the McCain proposal is often mentioned by Republican critics of those two bills.

For information on pay-or-plans or employer mandates, the papers from the Health Care Reform conference on employer mandates in the zipped file `HealthCareReformEmployerMandate.zip` and Chapter 24 in FGS. The prefix `hc.*` indicates the original presentation version, while the remaining papers are the fuller papers that were subsequently released through NBER. For Burkhauser-Simon and Baicker-Levy papers, there is substantial overlap in material with the NBER version being more detailed. The two Gruber papers are quite distinct. The `hc_symposium_Gruber` provides more detail on the Massachusetts Plan and some of the thinking on it. The second one is a major thought piece on covering the uninsured. These last two should be treated as separate papers.

Two other papers are worth reading are:

Emanuel, EJ. Fuchs VR. "Health care vouchers—a proposal for universal change," *New England Journal of Medicine*. 2005;352:1255-1260.

Glied, SA. "Universal coverage one head at a time--the risks and benefits of individual health insurance mandates," *New England Journal of Medicine* . 2008 Apr 10;358(15):1540-2.

More background on mandated benefits can be found online (but not CHALK) at:

Summers, L. "Some Simple Economics of Mandated Benefits," *American Economic Review*, 79 (May, 1989): 177-183.\*\*

Gruber, J. "The Incidence of Mandated Maternity Benefits," *American Economic Review*, 84 (3) 1994: 622-641.\*\*

March 17, 2010