ECON 40565
Health Economics

Department of Economics and Econometrics
University of Notre Dame

Spring 2007
Section 01 TuTh 11:00am – 12:15pm
217 DeBartolo

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Class web page: http://www.nd.edu/~wevans1/econ40565.html

Text and Readings: The textbook for the class is Folland, Goodman and Stano, The Economics of Health and Health Care, fifth Edition, Prentice Hall.

Along with the text, I will assign mandatory readings of academic articles that highlight important topics in health economics. The readings are available for download in PDF format from the class web page and a reading packet should be available at Hammes sometime during the first week of class. The web page is password protected and I will provide the information via email.

Office Hours: Mondays, 4:00pm – 6:00pm, Tuesdays, 2:00pm – 4:00pm, Wednesdays, 10:00am – 12:00pm, and by appointment.

I am never far from email. If you have a question, please feel free to contact me at wevans1@nd.edu.

Course Rationale:
Currently, health care expenditures account for 16 percent of GDP in the U.S., more than twice the value in 1970, and this number is expected to rise to approximately 20 percent by 2015. The US spends more than twice what most other industrialized countries spend on health care. Despite these expenditures, 15% of the population is without basic health insurance and the US fares poorly in international comparisons of such health indicators as life expectancy and infant mortality. Given the importance that the health care sector plays in the economy, it is only natural that our discipline considers the economic importance of this sector.

Course Theme:
The course is designed to illustrate how economists analyze topics related to the production of health and the delivery of health care. In many cases, economists think very differently about topics than health care professionals and other social scientists. Economists have time and time again demonstrated the importance of incentives in decision making and throughout the semester, we will demonstrate how incentives play an important role in the structure, conduct and performance of the health care sector.
Course Objective:
The course is an advanced undergraduate course in economics and students are expected to have completed a course in intermediate micro economic theory. The course will focus on using the tools of intermediate micro in this particular subject area. The course will provide students with a broad overview of important topics in health care, indicate current gaps in research, and demonstrate successful research programs in the field. The bulk of the readings are empirical in nature and the course will stress how to test economic hypotheses.

Expectations: Students are expected to attend class, to read the reading prior to class, to NOT be late to class, to participate in classroom discussions, to hand in assignments when due, and to NOT engage in academic dishonesty.

Evaluations: Grades for the course will be based on problem sets (15 percent of the course grade), a midterm exam, (30 percent of the course grade), a cumulative final (40 percent of the grade) and a paper (15 percent of the course grade).

**Problem sets:** Five problem sets will be assigned during the semester. These problem sets are designed to gauge your understanding of the concepts discussed in class. You will have one week to complete each assignment. Answers should be turned in at the beginning of class on the day they are due. I will not accept late problem sets. Collaboration and discussion are encouraged in your work but each student must hand in their own assignment. Problem sets are graded pass/fail.

**Examinations:** The mid-term examination will be held Tuesday, October 16th. The final exam for our class period is Monday, December 17th, from 10:30am til 12:30pm. Exams will be a mix of problems like those from the problem sets, and discussion-type questions.

Makeup exams will only be given for students who have a valid University excuse, applied for in writing and adequately documented. I must receive documentation within 48 hours of the missed exam. Please familiarize yourself with student responsibilities concerning missed exams, missed assignments, etc.

**Paper:** An economic analysis paper will be due Tuesday, December 11, the last day of class. A more detailed description of the assignment will be distributed later in the semester but you will be required to provide an economic analysis of any current presidential candidate’s health care reform plan. As we will discuss in class, reform plan must deal with a number of key concerns about the health care sector such as costs, access, tax equity, etc. You will be asked to analyze the likely economic impact of the proposal. Will it achieve its goals? What is the likely impact on prices, uninsurance rates, government expenditures, wages, access, costs, etc? What are some unintended consequences? Detailed graphs and tables are most likely a must. Since this is an economics class, I want you to analyze the proposals through an economic lens. Grades will be a function of the clarity and grammar, completeness, and quality of your economic arguments.

Please familiarize yourself with the Undergraduate Academic Code of Honor: [http://www.nd.edu/~hnrcode/docs/handbook.htm](http://www.nd.edu/~hnrcode/docs/handbook.htm).
Supplemental Readings
ECON 40565 Health Economics
Fall 2007

I. Introduction – How do economists think about health issues?

Folland, Goodman and Stano, Chapter 1.

Chapters 2-4 of Folland, Goodman and Stano review some economic tools that will be used throughout the semester. I will not review these chapters but you are expected to have a thorough understanding of intermediate micro theory.

II. The production of health

a. The production of health – an historical perspective

Folland, Goodman and Stano, Chapter 5.


b. Modern correlates of health


c. The government control of unhealthy behavior

Folland, Goodman and Stano, Chapter 19 and 23.

For this section, I recommend that you find your favorite intermediate micro textbook or undergraduate textbook in public finance and review the section
on externalities and taxation


d. Explaining the rise in obesity


e. AIDS

Folland, Goodman and Stano, Chapter 24

II. Health insurance and the demand for medical care

a. Choices under uncertainty and the role of insurance

Folland, Goodman and Stano, Chapter 7 and Chapter 9

For this section, I recommend that you find your favorite intermediate micro textbook and review the section on expected utility.

b. Adverse selection


c. **Moral hazard**

Folland, Goodman and Stano, Chapter 8

Folland, Goodman and Stano, Chapter 7, pages 155-160.


d. **Employer-provided health insurance**

Folland, Goodman and Stano, Chapter 11


III. **The Government provision of health insurance**

a. **Medicare**

Folland, Goodman and Stano, Chapter 20


Bhattacharya, J. and D. Lakdawaalla, "Does Medicare benefit the poor?" *Journal of Public Economics*, 90, 2006, 277-292


b. **Medicaid**


IV. Small area variation

Folland, Goodman and Stano, Chapters 9 and 10


V. Managed care

Folland, Goodman and Stano, Chapter 12


VI. R&D, innovation and the pharmaceutical industry

a. Innovation as a cost driver in health care

Folland, Goodman and Stano, Chapter 16


b. Pharmaceutical companies


VII. Medical malpractice

Folland, Goodman and Stano, Chapter 15
