ECON 40447
Health Economics

Department of Economics and Econometrics
University of Notre Dame

Fall 2009
Bill Evans
MW, 11:45am – 1:00pm
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Class web page: http://www.nd.edu/~wevans1/econ40565.html


In lieu of using a textbook, 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. For download, the readings require your netid. Students are expected to have read the papers in advance and be able to substantively discuss the work in class.

Office Hours: Mondays, 3:00pm – 5:00pm, Tuesdays, 10:00am – 12:00 noon, 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:
As the federal government once again grapples with the difficult problem of reforming the US health care system, we are presented with two different pictures of the US health care system. First, the US health care system is the model of innovation in the world. Advances in antiretroviral drugs have reduced annual mortality rates among HIV/AIDS patients by 70 percent, neonatal intensive care have saved the lives of many low weight births that in years past would have died shortly after birth, and effective treatments for heart attacks have in the past few decades helped boost the life expectancy among the elderly by large amounts. Prescription drugs have helped temper the mortality costs of high blood pressure and high cholesterol, assisted in eliminating many childhood diseases through vaccinations and helped reduce the suffering associated with depression and other mental disorders. Hip and knee replacements have helped damped the debilitating aspects of degenerative bone and joint conditions. Imagining techniques now allow the detection of tumors without invasive surgical procedures and many surgical techniques that used to require days of recovery in a hospital can be performed on an outpatient basis.

In contrast, it is easy to construct a case that the US health system is seriously flawed. Health care spending currently consumes over $2.4 trillion dollars, about 17 percent of gross domestic product, making it one of the largest sectors of the economy. In 2006, per capita spending on health in the U.S. was $6,714, 49 percent more than the next highest-spending country (Norway), more than twice the median value for OECD countries, about twice the value of Canada and nearly 2.5 times the value of the United Kingdom. Despite this spending, in 2005, the US ranked 25th of 29 countries in average life expectancy and the US had the fourth highest infant mortality rate of 28 countries reporting countries. Despite these spending amounts, currently 46 million Americans have no health insurance. The cost of medical care is increasing much faster than general inflation and it is estimated that two federal health insurance programs (Medicare and Medicaid) will consume 30 percent of the federal budget by 2030. The Dartmouth Atlas group estimates that roughly one third of Medicare spending is wasted on ineffective treatments and procedures.
At the same time, some estimates indicate that about 30 percent of the health care dollar is spent on administrative expenses.

Given the cost, financing and role of the federal government in health care, a careful, detailed economic analysis of this sector seems imperative.

**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. For some, this will be an eye-opening experience and for others, you may feel uncomfortable about what economists have to say about a particular subject.

**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. A number 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, to take tests when expected, and to NOT engage in academic dishonesty.

**Evaluations:**

Grades for the course will be based on a mid-term exam, (30 percent of the course grade), a cumulative final (40 percent of the grade), two précis which are short summaries of journal articles (5 percent each and 10 percent in total) and a paper (20 percent of the course grade).

**Examinations:** The mid-term examination will be held Tuesday, October 14th. The final exam for our class period is Wednesday, December 16th, from 8:00am til 10:00pm. 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.

**Précis:** A précis is a short synopsis. The key source of information for this class will be a series of academic articles on health economics. An important job market skill is being able to distill a large block of information into its key components so that is understandable for another person. During the semester, you will be required to write two précis (two pages, double spaced, 12 point type, one inch margins). The précis will be assigned about a week ahead of time. Once assigned, you must turn them in or you will get a zero for the assignment. A complete description of the assignment is on the class web page under assignments. The first précis is due next Monday – which is short—but remember – this is not a football weekend – so I would pick get one out of the way now.

**Paper:** I know I will regret this decision, but, an economic analysis paper will be due by 5:00pm Friday, December 11th (the first reading day). A more detailed description of the assignment will be distributed
right after the midterm break but you will be required to provide an economic analysis of the health care reform proposal that should be announced sometime in September. 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. The paper will be 10 pages, double spaced, 12 point type, 1 inch margins.

Please familiarize yourself with the Undergraduate Academic Code of Honor: http://www.nd.edu/~hnrcode/docs/handbook.htm.

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. Collaboration and discussion are encouraged in your work. Problem sets will not be graded or collected but I will distribute detailed answer keys. The problem sets will be indicative of what I will ask on the exams.

Reading List
Health Economics/Evans/Fall 2009

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

II. The production of health

   a. An historical perspective


   b. Modern correlates of health


      *Evans, William and Timothy Moore, “The Short-Term Mortality Consequences of Income Receipt.” Working Paper, Department of Economics and Econometrics, University of Notre
Dame, 2009.

III. The Government control of unhealthy behavior

a. Pigouvian taxes


b. Do smokers and drinkers pay their way?


c. Explaining the rise on obesity


II. Health insurance and the demand for medical care

a. Choices under uncertainty and the role of insurance


b. Adverse selection


c. Moral hazard


d. Employer-provided health insurance

For this section, it might be useful for you to review your class notes from intermediate microeconomics on income and substitution effects.


e. Medicare and Medicaid


III. Health Care Reform (Right now, this section is tentative. The readings may change based on whether a reform bill is passed.)

a. A general outline of the problem: Costs and coverage


Congressional Budget Office, Letter to Representative Nathan Deal, August 7, 2009, “The Budgetary Effects of Expanding Governmental Support Services for Preventive Care and Wellness Services,

b. Some general comments on full scale reform


e. **The economics of employer mandates**


d. **The Massachusetts experiment**


*#Long, Sharon, Karen Stockley, and Alyshadye Yemane, “Another Look at the Impacts of health Reform in Massachusetts: Evidence Using New Data and a Stronger Model.” *American Economic Review Papers and Proceedings* *

e. **The Economist’s Dream: Medical Savings Accounts**


f. **Practice patterns and health care costs**

Please check out the Dartmouth Atlas, [http://www.dartmouthatlas.org/](http://www.dartmouthatlas.org/), which is a fascinating graphical presentation of small-area variation. If you do not waste 3 hours looking at these graphs,
you are not interested in health economics.


