

**HEALTH ECONOMICS I: THE ECONOMICS OF HEALTH CARE SUPPLY**  
**ECONOMICS 9610-005**  
**CRN 88679**  
**FALL 2014**

Time: Tuesday and Thursday, 2:30pm-3:45pm  
Room: Classroom South, room 407  
Professor: Jim Marton  
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Office hours: Tuesday and Thursday, 3:45pm – 4:30pm and by appointment

**Course Description:**

The field of health economics can be broadly described as consisting of two parts: 1) the “demand side,” or factors influencing individuals’ demand for health and medical care, and 2) the “supply side,” or factors influencing health care providers’ supply of medical services. This course focuses on the supply side of the field, divided into eight segments: 1) An overview of the field of health economics that focuses on what makes health economics a distinct field and where health economists typically work, 2) the transformation of medical care into health, 3) the market for physician care, 4) the market for hospital care, 5) the market for health insurance, 6) public health insurance, 7) private health insurance, and 8) health care reform and the Affordable Care Act (ACA).

**Course Objectives:**

By the end of the semester, students should be able to:

- 1) Describe what makes health economics different than other fields.
- 2) Summarize what we know (and don’t know) about how medical care is turned into health and assess the policy implications of this information.
- 3) Explain the basic institutional structure of the market for physician care.
- 4) Explain the basic institutional structure of the market for hospital care.
- 5) Identify the economic motivation for purchasing health insurance and differentiate between the challenges that arise from adverse selection and moral hazard.
- 6) Summarize the basic institutional structure of the market for public health insurance, including Medicaid, Medicare, and CHIP.
- 7) Summarize the basic institutional structure of the market for private health insurance, including an examination of the motivation for employer-provided health insurance in the United States.
- 8) Analyze the main economic and policy principles that the ACA is based upon.
- 9) Write a paper which identifies three open questions in the health economics “supply side” literature and proposes a well-reasoned strategy for answering at least one of those questions.

**Suggested Texts:**

Culyer, Anthony and Newhouse, Joseph (eds.), 2000. *Handbook of Health Economics, Volume 1 (A and B)*. Waltham, MA: North Holland.

Pauly, Mark, Thomas McGuire, and Pedro Barros (eds.), 2012. *Handbook of Health Economics, Volume 2*. Waltham, MA: North Holland.

**Prerequisite:**

ECON 9010, B- and ECON 9030, B- or consent of instructor

**Course Format:**

Most class meetings will begin with a lecture based on the corresponding readings, and end with more detailed open discussions of two academic journal articles. As I discuss below, students are going to volunteer to lead the discussion of the journal articles in most cases in order to encourage participation and sharpen your presentation skills. I will take the lead on some of the articles myself.

**Grading:**

Paper	30%
Final Exam	40%
Class Participation / Presentations	30%

**Paper:**

Each student will write a literature review paper on a health economics topic of his/her choice, subject to my approval. There is no specific page requirement. 10 double spaced pages might be a good target, but an efficiently-written paper could be shorter, while a student wishing to use the paper as a springboard to a dissertation may choose to write more. The paper will mostly consist of discussions of prior research, but should end with discussions of three open questions in the literature plus a proposed strategy for answering at least one of these questions. **The paper is due on the last day of fall classes, December 8.**

**Final Exam:**

You will have an in class final (no make ups). Its design will mimic my portion of the health field comprehensive exam.

**Class Participation / Presentations:**

Class attendance and active participation is expected and is worth 30% of your grade. I expect each student to take the lead in discussing 1 or 2 of the papers on the reading list during the semester. This means making up PowerPoint slides and coordinating your presentation with me. I will ask for volunteers each week for the upcoming week's papers.

**Academic Honesty:**

Students are expected to abide by GSU's Policy on Academic Honesty (Section 409), available at <http://www2.gsu.edu/~wwwfhh/sec409.html>.

**Reading List:**

The “required” readings, which consist of one “overview reading” (typically a literature review) and two journal articles for each class meeting, are in bold. The other readings are “optional,” meaning that I will touch on them in the lectures but not discuss them as extensively as the required readings. Evidence of repeatedly coming to class not prepared to discuss the required readings will count against your participation score, but this will not be the case for the optional readings. In other words, you may use the optional readings however you wish – perhaps to further investigate particular topics that you find interesting.

**Evaluation:**

Your constructive assessment of this course plays an indispensable role in shaping education at Georgia State. Upon completing the course, please take time to fill out the online course evaluation.

**Disabilities:**

Students who wish to request accommodation for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which an accommodation is sought.

## **I. Overview of the Field**

### Overview Readings

**Culyer, Anthony J. and Joseph P. Newhouse (2000). “Introduction: The State and Scope of Health Economics” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.**

### Journal Articles

**Arrow, Kenneth (1963). “Uncertainty and the Welfare Economics of Medical Care” *American Economic Review*, 53(5), 941-973.**

Cawley, John, and Michael A. Morrissey (2007). “The Earnings of U.S. Health Economists.” *Journal of Health Economics*, 26(2), 358-372.

Evans, William, Helen Levy, and Kosali Simon (1996). “Data Watch: Research Data in Health Economics,” *Journal of Economic Perspectives*, 14(4), 203-216.

**Morrissey, Michael A., and John Cawley (2008). “U.S. Health Economists: Who We Are and What We Do.” *Health Economics*, 17(4), 535-543.**

Morrissey, Michael A., and John Cawley (2008). “The Production of Published Research by U.S. Academic Health Economists,” *International Journal of Health Care Finance and Economics*, 2008, 8(2), 87-111.

Morrissey, Michael A., and John Cawley (2008). “Health Economists’ Views of Health Policy.” *Journal of Health Politics, Policy, and Law*, 2008, 33(4), 707-724.

## **II. The Transformation of Medical Care into Health**

### Overview Readings

**Wennberg, J.E., J.L. Freeman, and W.J. Culp. (1987.) “Are Hospital Services Rationed in New Haven or Over-Utilized in Boston?” *Lancet* 1, May 23, 1185-1188.**

Garber, Alan. M. (2000). “Chapter 4. Advances in CE Analysis” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

### Journal Articles

**Almond, Douglas, Joseph J. Doyle Jr., Amanda E. Kowalski, and Heidi Williams (2008). “Estimating Marginal Returns to Medical Care: Evidence from At-Risk Newborns,” NBER Working Paper No. 14522.**

**Chandra, Amitabh and Douglas Staiger (2007). “Productivity Spillovers in Health Care: Evidence from the Treatment of Heart Attacks,” *Journal of Political Economy*, 115(1), 103-140.**

Cutler, David (2008). “Are We Finally Winning the War on Cancer?” *Journal of Economic Perspectives*, 22(4), 3-26.

Cutler, David, Allison B. Rosen, and Sandeep Vijan (2006). “Value of Medical Innovation in the United States: 1960-2000,” *New England Journal of Medicine*, 355(9), 920-927.

Dartmouth Atlas of Health Care Website: <http://www.dartmouthatlas.org/>

Garber, Alan M. and Charles E. Phelps (1997). “Economic Foundations of Cost-Effectiveness Analysis” *Journal of Health Economics*, 16(1), 1-31.

Phelps, C.E., C. Mooney, and A.I. Mushlin. (1994) Doctors Have Styles – and They Matter! University of Rochester Working Paper. (1-50)

### **III. The Market for Physician Care**

#### Overview Readings

Anthony Scott (2000). “Chapter 22. The Economics of General Practice” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

Dranove, D. and Mark A. Satterhwaite (2000). “Chapter 19. The Industrial Organization of Health Care Markets” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

**Reinhardt, Uwe. (1972) “A Production Function for Physician Services” *Review of Economics and Statistics*, 54 (1), 55-66.**

#### Journal Articles

Benham, Lee (1972) “The Effect of Advertising on the Price of Eyeglasses” *Journal of Law and Economics*, 15 (2), 337-352.

Dranove, David and P. Wehner (1994) “Physician-Induced Demand for Childbirths” *Journal of Health Economics*, 13, 61-73.

Frank, Richard and Richard Zeckhauser. (2007). “Custom-made vs. Ready to Wear Treatments: Behavioral Propensities in Physicians’ Choices,” *Journal of Health Economics*, 26(6), 1101-1127.

**Gaynor, Martin and Paul Gertler (1995). “Moral Hazard and Risk Spreading in Partnerships” *RAND Journal of Economics*, 26 (4), 591-613.**

Goodman, David C., and Elliott Fisher “Physician Workforce Crisis? Wrong Diagnosis, Wrong Prescription”, *New England Journal of Medicine*, 358(16), 1658-1661.

Reindhart, Uwe (1973). “Manpower Substitution and Productivity in Medical Practices: Review of Research” *Health Services Research*, 8 (3), 200-227.

Rosenthal, Meredith, et al. (2005). “Early Experience with Pay-for-Performance: From Concept to Practice,” *JAMA*, 294(14), 1788-1793.

**Thurston, Norman K. and Anne M. Libby (2002). “A Production Function for Physician Services Revisited” *Review of Economics and Statistics*, 84 (1), 184-191.**

#### **IV. The Market for Hospital Care**

##### Overview Readings

Martin Gaynor and William B. Vogt (2000). “Chapter 27. Antitrust and Competition in Health Care Markets” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

**Phelps, Charles E. and Itae Sened (1990). “Market Equilibrium with Not-for-Profit Firms” University of Rochester, Working Paper.**

Salkever, David S. (2000). “Chapter 28. Regulation of Prices and Investments in Hospitals in the U.S.” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

Frank A. Sloan (2000). “Chapter 21. Not-for-Profit Ownership and Hospital Behavior” *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

##### Journal Articles

Baicker, Katherine and Douglas Staiger (2005). “Fiscal Shenanigans, Targeted Federal Health Care Funds, and Patient Mortality,” *Quarterly Journal of Economics*, 2005, 120(1), 345-386.

Barro, Jason, Robert Huckman, and Daniel Kessler (2005). “ The Effects of Specialty Hospitals on the Cost and Quality of Medical Care,” *Journal of Health Economics*, 25(4), 702-721.

**Cutler, David, Robert S. Huckman, and Mary Beth Landrum (2004). “The Role of Information in Medical Markets: An Analysis of Publicly Reported Outcomes in Cardiac Surgery,” *American Economic Review*, 94(2), 342-346.**

Dranove, David, Dan Kessler, Mark McClellan, and Mark Satterthwaite (2003). "Is More Information Better? The Effects of 'Report Cards' On Health Care Providers," *Journal of Political Economy*, 111(3), 555-88.

Grannemann, T.W., R.S. Brown, and Mark V. Pauly (1986). "Estimating Hospital Costs – A Multiple Output Analysis" *Journal of Health Economics*, 5 (2), 107-127.

**Kessler, Daniel and Mark McClellan (2000). "Is Hospital Competition Socially Wasteful?" *Quarterly Journal of Economics*, 115(2), 577-615.**

Newhouse, Joseph P. (1970b). "Toward a Theory of Nonprofit Institutions: An Economic Model of a Hospital" *American Economic Review*, 60 (1), 64-74.

Pauly, Mark V. and M. Redisch. (1973) "The Not-for-Profit Hospital as a Physicians' Cooperative" *American Economic Review*, 63 (1), 87-99.

## **V. Health Insurance Basics (I and II)**

### Overview Readings

**David M. Cutler and Richard J. Zeckhauser (2000). "Chapter 11. The Anatomy of Health Insurance" *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.**

**Glied, Sherry (2000). "Chapter 13. Managed Care" *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.**

McGuire, Thomas (2011). "Chapter 5. Demand for Health Insurance." *Handbook of Health Economics, Vol. 2*, 317-387.

### Journal Articles

**Cutler, David, and Sarah Reber (1998). "Paying for Health Insurance: The Tradeoff Between Competition and Adverse Selection" *Quarterly Journal of Economics*, 113(2), 433-466.**

Dafny, Leemore (2008). "Are Health Insurance Markets Competitive?" NBER Working Paper 14572.

**Manning, Willard, Joseph Newhouse, Naihua Duan, Emmett Keeler, Arleen Leibowitz, and M. Susan Marquis (1987). "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment." *American Economic Review*, 77(3), 251-77.**

Phelps, C.E. (1973) *The Demand for Health Insurance: A Theoretical and Empirical Investigation*. Santa Monica, CA: The RAND Corporation Report R-1054-OEO. pp. 1-210

**Rothschild, M. and J. Stiglitz (1976). "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information" *Quarterly Journal of Economics*, 80, 629-649.**

**Wilson, Charles (1977). "A Model of Insurance Markets with Incomplete Information" *Journal of Economic Theory*, 16, 167-207.**

## **VI. Public Health Insurance – Medicare, Medicaid, CHIP (I and II)**

### Overview Readings

Chalkley, M. and James M. Malcomson (2000). "Chapter 15. Government Purchasing of Health Services" *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.

**Gruber, Jon (2003). "Medicaid," in Robert A. Moffitt, editor, "Means-Tested Transfer Programs in the United States" University of Chicago Press.**

**Marton, James. and David E. Wildasin (2007). "State Government Cash and In-Kind Benefits: Intergovernmental Fiscal Transfers and Cross-Program Substitution" *Journal of Urban Economics*, 61(1), 1-31.**

### Journal Articles

**Aizer, A., J. Currie, and E. Moretti. 2007. Does Managed Care Hurt Health? Evidence from Medicaid Mothers? *Review of Economics and Statistics* 89(3): 385-399.**

Card, David, Carlos Dobkin, and Nicole Maestas (2008). "The Impact of Nearly Universal Insurance Coverage on Health Care Utilization: Evidence from Medicare." *American Economic Review*, 98(5), 2242-2258.

Card David, Carlos Dobkin, and Nicole Maestas (2009). "Does Medicare Save Lives?" *Quarterly Journal of Economics*, 124(2), 597-636.

Currie, Janet and Jonathan Gruber (1996b). "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women." *Journal of Political Economy*, 104(6), 1263–1296.

**Duggan, M. 2004. Does Contracting Out Increase the Efficiency of Government Programs? Evidence from Medicaid HMOs. *Journal of Public Economics* 88: 2549-2572.**



Finkelstein, Amy and Robin McKnight (2008). "What Did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending." *Journal of Public Economics*, 92, 1644-1668.

Marton, James (2006) "The Impact of the Introduction of Premiums into a SCHIP Program. Forthcoming" *Journal of Policy Analysis and Management*, 26 (2), pp. 1-33

**Marton, James and David E. Wildasin (2007). Medicaid Expenditures and State Budgets: Past, Present, and Future, *National Tax Journal*, 60 (2), 279-304.**

Marton, James, Patricia Ketsche, and Mei Zhou (2010). SCHIP Premiums, Enrollment, and Expenditures: A Two State, Competing Hazard Analysis, *Health Economics* 19(7), 772-791.

**Marton, James, Aaron Yelowitz, and Jeff Talbert (2012). "A Tale of Two Cities? The Heterogeneous Impact of Medicaid Managed Care, GSU working paper.**

## **VII. Private Health Insurance**

### Overview Readings

**Gruber, Jonathan (2000). "Chapter 12. Health Insurance and the Labor Market" *Handbook of Health Economics, Volume I*. Waltham, MA: North Holland.**

**Gruber, Jonathan (2010). "The Tax Exclusion for Employer-Sponsored Health Insurance" NBER Working Paper No. 15766**

### Journal Articles

**Autor, David, Mark Duggan, and Jon Gruber (2012). Moral Hazard and Claims Deterrence in Private Disability Insurance. NBER Working Paper No. 18172**

**Ernst R. Berndt & Thomas McGuire & Joseph P. Newhouse, 2011. "A Primer on the Economics of Prescription Pharmaceutical Pricing in Health Insurance Markets," *Forum for Health Economics & Policy*, Berkeley Electronic Press, vol. 14(2), pages 10.**

**Castaneda, Marco and James Marton (2013). Employer Provided Health Insurance and the Adverse Selection Problem" *Public Finance Review*, 41(1), 3-36.**

Hamilton, Barton H. and James Marton (2008). "Employee Choice of Flexible Spending Account Participation and Health Plan" *Health Economics*, 17(7), 793-813.

**Marton, James and Steve Woodbury (2013). "Retiree Health Benefits as Deferred Compensation : Evidence from the Health and Retirement Study" *Public Finance Review*, 41(1), 64-91.**

## VIII. Health Care Reform

### Overview Readings

**Gruber, Jonathan (2008). Incremental Universalism for the United States: The States Move First? *Journal of Economic Perspectives*, 22(4), 51-68.**

Gruber, Jonathan (2011). The Impact of the Affordable Care Act: How Reasonable are the Projections? National Bureau of Economic Research Working Paper #17168.

Patel K., McDonough J. (2010). From Massachusetts to 1600 Pennsylvania Avenue: Aboard the Health Reform Express. *Health Affairs*, 29(6), 1106-1110.

### Journal Articles

Courtemanche, Charles and Daniela Zapata (2012). “Does Universal Coverage Improve Health? The Massachusetts Experience.” National Bureau of Economic Research Working Paper #17893.

Finkelstein Amy, Sarah Taubman, Bill Wright, Mira Bernstein, Jonathan Gruber, Joseph Newhouse, Heidi Allen, Katherine Baicker, and The Oregon Health Study Group (2011). The Oregon Health Insurance Experiment: Evidence from the First Year. *Quarterly Journal of Economics*, forthcoming.

**Kolstad, Jonathan and Amanda Kowalski (2010). “The Impact of Health Care Reform on Hospital and Preventive Care: Evidence from Massachusetts.” Forthcoming, *Journal of Public Economics*.**

Long S., Stockely K. and Yemane A. (2009). Another Look at the Impacts of Health Reform in Massachusetts: Evidence Using New Data and a Stronger Model. *American Economic Review Papers and Proceedings*, 99(2), 508-511.

**Miller, Sarah (2011). “The Effect of Insurance on Outpatient Emergency Room Visits: An Analysis of the 2006 Massachusetts Health Reform.” Forthcoming, *Journal of Public Economics*.**

Sommers, Benjamin, Katherine Baicker, and Arnold Epstein (2012). “Mortality and Access to Care among Adults after State Medicaid Expansions.” *New England Journal of Medicine*, 367, 1025-1034.

**Tentative Course Outline (subject to change):**

<b>Dates</b>	<b>Topic</b>	<b>Overview Reading</b>	<b>Journal Article 1</b>	<b>Journal Article 2</b>
Aug. 26 (T)	I. Overview of the Field	Culyer and Newhouse (2010)	Arrow (1963)	
Aug. 28 (R)	I. Overview of the Field			Morrisey and Cawley (2008)
Sept. 2 (T)	II. Transforming Medical Care into Health	Wenberg et al. (1987)	Almond et al. (2008)	
Sept. 4 (R)	II. Transforming Medical Care into Health			Chandra and Staiger (2007)
Sept. 9 (T)	III. Market for Physician Care	Reinhardt (1972)	Gaynor and Gertler (1995)	
Sept. 11 (R)	III. Market for Physician Care			Thurston and Libby (2002)
Sept. 16 (T)	IV. Market for Hospital Care	Phelps and Sened (1990)	Kessler and McClellan (2000)	
Sept. 18 (R)	IV. Market for Hospital Care			Cutler et al. (2004)
Sept. 23 (T)	V. Health Insurance Basics I	Cutler and Zeckhauser (2000)	Rothschild and Stiglitz (1976)	
Sept. 25 (R)	V. Health Insurance Basics I			Wilson (1977)
Sept. 30 (T)	V. Health Insurance Basics II	Glied (2000)	Cutler and Reber (1998)	
Oct. 2 (R)	V. Health Insurance Basics II			Manning et al. (1987)
Oct. 7 (T)	DR. MARTON AT NSSA	Possible job market presentation	Yanling Qi	
Oct. 9 (R)	catch up day for sections I-V			
Oct. 14 (T)	AHEC conference discussion	Powell and Goldman (2013)	--	--
Oct. 16 (R)	DR. MARTON AT AHEC	Possible job market presentation	Xilin Zhou	
Oct. 21 (T)	SHESG conference discussion	Ayyagari and He (2014)	--	--
Oct. 23 (R)	DR. MARTON AT SHESG	Possible job market presentation	Mariétou Ouayogodé	
Oct. 28 (T)	VI. Public Health Insurance I	Gruber (2003)	Marton and Wildasin (2007a)	
Oct. 30 (R)	VI. Public Health Insurance I			Marton and Wildasin (2007b)
Nov. 4 (T)	VI. Public Health Insurance II	Marton, Yelowitz, and Talbert (2014)	Aizer et al. (2007)	Duggan (2004)
Nov. 6 (R)	VI. Public Health Insurance II	(APPAM presentation dry run)	Marton and Kenney (2014)	
Nov. 11 (T)	VII. Private Health Insurance I	Gruber (2000)	Marton and Woodbury (2013)	
Nov. 13 (R)	VII. Private Health Insurance I			Autor et al. (2012)
Nov. 18 (T)	VII. Private Health Insurance II	Gruber (2010)	Marton and Castaneda (2013)	Berndt et al. (2011)
Nov. 20 (R)	VII. Private Health Insurance II	(SEA presentation dry run)	Marton and Yelowitz (2014b)	
Nov. 25 (T)	THANKSGIVING BREAK			
Nov. 27 (R)	THANKSGIVING BREAK			
Dec. 2 (T)	VIII. Health Care Reform	Gruber (2008)	Kolstad and Kowalski (2010)	
Dec. 4 (R)	VIII. Health Care Reform			Miller (2011)

Dec. 11 (R)	FINAL EXAM FROM 1:30PM TO 4PM IN OUR REGULAR CLASSROOM
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*The course syllabus provides a general plan for the course; deviations may be necessary.*