

UNIVERSITY OF CHICAGO

Public Policy 383  
Business 857  
SSA 477  
Econ 277

Spring 2005  
David Meltzer

Health Economics and Public Policy

This course analyzes the economics of health care in the United States with particular attention to the role of government. The first part of the course examines the demand for health care and the structure and consequences of public and private health insurance. The second part of the course examines the supply of health care, including professional training, licensure, specialization and compensation, hospital competition and finance and the determinants and consequences of technical change in medicine. The course concludes with an examination of recent proposals and initiatives for health care reform.

Required readings are in **bold face**. The text for the course is Phelps, Health Economics, 3<sup>rd</sup> Ed. The Phelps text can be purchased at the Seminary Coop Bookstore. The text and all the readings are available on closed reserve at Regenstein Library. Readings are also available at <http://chalk.uchicago.edu> in course documents folder.

I. Introduction (3/29)

**Phelps, Chapters 1 and 2**

**Fuchs, Victor.** "The Health Sector's Share of the Gross National Product," Science 1990; 247: 534-538.

**Newhouse, Joseph.** "Medical Care Costs: How Much Welfare Loss?" J Econ. Perspectives 1992; 6(3): 3-21.

**Baumol, William.** "Health Care, Education and the Cost Disease: A Looming Crisis for Public Choice," Public Choice 1993; 77, 17-28.

Mendelsohn, Daniel and William Schwartz. "The Effects of Aging and Population Growth on Health Care Costs," Health Affairs Spring 1993; 12(1): 119-125.

Levit, Katherine, et al. "National Health Spending Trends, 1960-1993," Health Affairs Winter 1994; 13(5): 14-31.

**Levit, Katherine, et al.** "Health Care Spending in 1994: Slowest in Decades," Health Affairs Summer 1996; 15(2): 130-144.

**Levit, Katherine, et al.** "National Health Expenditures In 1997: More Slow Growth," Health Affairs Nov./Dec. 1998; 17(6): 99-110.

**Heffler, Stephen, Katherine Levit, et al.** "Health Spending Growth Up in 1999; Faster Growth Expected in Future," Health Affairs March/April 2001; 20(2): 193-203.

**Levit, Katherine, et al.** "Spending Rebound Continues in 2002," Health Affairs Jan./Feb. 2004; 23(1): 147-159.

**Cynthia Smith, Cathy Cowan, Art Sensenig, Aaron Catlin and the Health Accounts Team.** "Health Spending Growth Slows In 2003" Health Affairs, Jan./Feb. 2005; 24(1): 185-194.

II. The Demand for Health and Medical Care (3/31, 4/5)

**Phelps, Chapters 3 (pp. 61-78) and 4 (pp. 102-118)**

**Grossman, Michael. "On the Concept of Health Capital and the Demand for Health," Journal of Political Economy 1972; 80(2): 223-255.**

Grossman, Michael. "The Human Capital Model" Chapter 7 in Handbook of Health Economics, A. Culyer and J. Newhouse editors, Elsevier Science Press, 2000.

**Barsky, Arthur. "The Paradox of Health," NEJM 1988; 318(7): 414-418.**

**Easterlin, Richard. "Explaining Happiness" PNAS September 16, 2003; 100(19): 11176-11183.**

Becker, Gary and Kevin M. Murphy, "A Theory of Rational Addiction," J Political Economy, 1988; 96(4): 675-700.

III. The Value of Saving a Life (4/7)

**Thaler, Richard and Sherwin Rosen. "The Value of Saving a Life: Evidence from the Labor Market," in Household Production and Consumption ed. Nestor E. Terleckyj NBER 1976 pp. 265-298.**

Viscusi, Kip. "The Value of Risks to Life and Health" Journal of Economic Literature December 1993; 31: 1912-1946.

Zeckhauser, Richard. "Procedures for Valuing Lives," Public Policy 1975; 23(4): 419-464.

**Viscusi, Kip, Wesley Magat and Joel Huber " An Investigation of the Rationality of Consumer Valuations of Multiple Health Risks," RAND Journal of Economics 1987; 18(4): 465-479.**

IV. Insurance and the Demand for Health Care (4/12, 4/14)

**Phelps, Chapters 4 (pp. 119-137) and 5 (pp. 138-165)**

**Phelps, Charles and Joseph Newhouse. "Effects of Coinsurance: A Multivariate Analysis," Social Security Bulletin 1972; 35:20-29.**

**Manning, Willard, Joseph Newhouse, Naihua Duan, et al., "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," American Economic Review 1987; 77(3): 521-277.**

Brook, Robert, et al. "Does Free Care Improve Adults' Health? Results from a Randomized Controlled Trial," New England Journal of Medicine 1983; 309(24): 1426-1434.

Arrow, Kenneth. "Uncertainty and the Welfare Economics of Medical Care," American Economic Review 1963; 53(5):941-973.

Pauly, Mark "The Economics of Moral Hazard: Comment," American Economic Review 1968; 58(3):531-537.

Arrow, Kenneth. "The Economics of Moral Hazard: Further Comment," American Economic Review 1968; 58(3):537-539.

V. The Demand for Insurance and the Structure of Private Insurance Markets (4/19, 4/21)

**Phelps, Chapters 10, 11 (pp. 366-378) and 15**

**Rothschild, Michael and Joseph Stiglitz. "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," Quarterly Journal of Economics 1976; 90:629-650.**

Pauly, Mark. "Taxation, Health Insurance and Market Failure in the Medical Economy," Journal of Economic Literature 1986; 24:629-675.

Woolhandler, Steffie and David Himmelstein et al. "The Deteriorating Administrative Efficiency of the U.S. Health Care System," New England Journal of Medicine 1989; 320(2):102-108.

Cutler, David and Sarah Reber. "Paying for Health Insurance: The Tradeoff between Competition and Adverse Selection," NBER Working Paper #5796; October 1996.

**Pauly, Mark and John Goodman. " Tax Credits for Health Insurance and Medical Savings Accounts," Health Affairs 1995; 14 (1): 126-139.**

VI. Agency Issues and the Supply of Physician Services (4/26)

**Phelps, Chapters 7, 14 and 16 (pp. 539-548)**

**Pauly, Mark "Is Medical Care Different?". In Competition in the Health Care Sector: Past, Present and Future. Aspen Systems Corp., 1978.**

**Fuchs, Victor. "The Supply of Surgeons and the Demand for Operations," Journal of Human Resources 1978; 8(Supplement): 35-56.**

Cromwell, Jerry and Janet Mitchell. "Physician-Induced Demand for Surgery," Journal of Health Economics 1986; 5:293-313.

Hickson, Gerald et al. " Physician Reimbursement by Salary or Fee-for Service: Effect on Physician Practice Behavior in a Randomized Prospective Study," Pediatrics Sept. 1987; 80 (3): 344-50.

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

Leffler, Keith. " Physician Licensure: Competition and Monopoly in American Medicine," Journal of Law and Economics 1978; 21(1):165-185.

Baron, Charles. "Licensure of Health Care Professionals," American Journal of Law and Medicine 1983; 9(3): 335-336.

Danzon, Patricia. "Liability for Medical Malpractice". Chapter 26 in Handbook of Health Economics, A. Culyer and J. Newhouse editors, Elsevier Science Press, 2000.

Kessler, Daniel and Mark McClellan. "Do Doctors Practice Defensive Medicine?" Quarterly Journal of Economics; 1996; 111(2): 353-90.

VII. Supply of Physicians (4/26)

**Phelps, Chapter 6**

**Burstein, Philip and Jerry Cromwell. "Relative Incomes and Rates of Return for U.S. Physicians," Journal of Health Economics 1985; 4:63-78.**

Sloan, Frank. "Lifetime Earnings and Physicians' Choice of Specialty," Industrial and Labor Relations Review 1970; 24:47-56.

McKay, Niccie. "The Economic Determinants of Specialty Choice by Medical Residents," Journal of Health Economics 1990; 9:335-357.

**Fuchs, Victor and James Hahn. "How Does Canada do it?" New England Journal of Medicine 1990; 323(13):884-890.**

VIII. Physician Payment Reform: The Resource-Based Relative Value Scale (4/28or 4/27)

**Hsaio, William et al. "Results and Policy Implications of the Resource-based Relative Value Scale," New England Journal of Medicine 1988; 319(13): 881-888.**

Hsaio, William et al. "Results, Potential Effects and Implementation Issues of the Resource-based Relative Value Scale," Journal of the American Medical Association 1988; 260(16):2429-2438.

Todd, James. "At Last, a Rational Way to Pay for Physician' Services?" , " Journal of the American Medical Association 1988; 260(16):2439-2441.

Lee, Philip and Paul Ginsburg. "Physician Pay Reform: An Idea Whose Time has Come," Journal of the American Medical Association 1988; 260(16):2429-2438.

Roper, William. "The Resource-based Relative Value Scale: A Methodological and Policy Evaluation," Journal of the American Medical Association 1988; 260(16):2429-2438.

IX. Physician Workforce Reform: The Push for Generalists (4/28)

Newhouse, Joseph et al. "Where have all the Doctors Gone?" Journal of the American Medical Association 1982; 247(17):2392-2396.

Becker, Gary and Kevin Murphy. "The Division of Labor, Coordination Costs, and Knowledge" Quarterly Journal of Economics 1992; 107(4): 1137-60.

**Colwill, Jack. "Where have all the Primary Care Applicants Gone?" New England Journal of Medicine 1992; 326(6):387-393.**

Petersdorf, Robert. "The Doctor Is In," Academic Medicine 1993; 68(2):113-7.

Schroeder, Steven. "Training an Appropriate Mix of Physicians to Meet the Nations's Needs," Academic Medicine 1993; 68(2): 118-121.

**Kravits, Richard et al. "Differences in the Mix of Patients Among Specialties and Systems of Care: Results from the Medical Outcomes Study," Journal of the American Medical Association 1992; 267(12):1617-1623.**

**Greenfield, Sheldon et al. "Variations in Resource Utilization Among Medical Specialties and Systems of Care: Results from the Medical Outcomes Study," Journal of the American Medical Association 1992; 267(12): 1624-1630.**

Rosenblatt, Roger. "Specialists or Generalists: On Whom Should We Base the American Health Care System?" Journal of the American Medical Association 1992; 267(12): 1665-1666.

Wennberg, et al. "Finding Equilibrium in U.S.Physician Supply," Health Affairs Summer 1993; 12(2): 89-103.

**Weiner, Jonathan. "Forecasting the Effects of Health Reform on US Physician Workforce Requirements: Evidence from HMO Staffing Patterns." JAMA July 29, 1994; 272 (3): 222-230.**

**Ayanian, John et al. "Knowledge and Practices of Generalist and Specialist Physicians Regarding Drug Therapy for Acute Myocardial Infarction." NEJM Oct. 27, 1994; 331 (17): 1136-1142.**

Eisenberg, John. "If Trickle-Down Physician Workforce Policy Failed, Is the Choice Now Between the Market and Government Regulation?" Inquiry Fall 1994; 31 (3): 241-249.

Reinhardt, Uwe. "Planning the Nation's Health Workforce: Let the Market In." Inquiry Fall 1994; 31 (3): 250-263.

X. Hospital Organization and Economic Behavior (5/3)

**Phelps, Chapters 8 and 9**

**Harris, Jeffrey. "The Internal Organization of Hospitals: Some Economic Implications," Bell Journal of Economics 1977; 8:467-482.**

Jacobs, Philip. "A Survey of Economic Models of Hospitals," Inquiry 1974; 11(2):83-97.

Sloan, Frank . "Not-for-Profit Ownership and Hospital Behavior " Chapter 21 in Handbook of Health Economics, A. Culyer and J. Newhouse editors, Elsevier Science Press, 2000.

XI. Competition and Managed Care (5/5)

**Phelps, Chapter 11 (pp. 378-402)**

**Robinson, James and Harold Luft. "The Impact of Hospital Market Structure on Patient Volume, Average Length of Stay, and the Cost of Care," Journal of Health Economics 1985; 4:333-356.**

**Manning, Willard et al. "A Controlled Trial of the Effect of Prepaid Group Practice on Use of Services," New England Journal of Medicine 1984; 310(23):1505-10.**

**Sloss, Elizabeth et al. "Effect of a Health Maintenance Organization on Physiologic Health: Results from a Randomized Trial," Annals of Internal Medicine 1987; 106:130-8.**

Enthoven, Alain. "Why Managed Care has Failed to Contain Costs," Health Affairs 1993; 12 (3): 27-43.

Glied, Sherry. "Managed Care" Chapter 13 in Handbook of Health Economics, A. Culyer and J. Newhouse editors, Elsevier Science Press, 2000.

XII. Prospective Payment (5/10)

**Phelps, Chapters 12 and 16 (pp. 558-580)**

**Ellis, Randall and Thomas McGuire "Provider Behavior Under Prospective Reimbursement," Journal of Health Economics 1986; 5:129-151.**

Kahn, Katherine et al. "The Effects of the DRG-based Prospective Payment System on Quality of Care for Hospitalized Medicare Patients: An Introduction to the Series," Journal of the American Medical Association 1990; 264(15): 1953-1955.

**Koseoff, Jacqueline, et al. "Prospective Payment System and Impairment at Discharge: The 'Sicker and Quicker' Story Revisited," Journal of the American Medical Association 1990; 264(15): 1980-1983.**

**Rodgers, William et al. " Quality of Care Before and After Implementation of the DRG-based Prospective Payment System: A Summary of Effects," Journal of the American Medical Association 1990; 264(15): 1989-1994.**

Logerfo, James. "The Prospective Payment System and Quality: No Skeletons in the Closet," Journal of the American Medical Association 1990; 264(15): 1995-1996.

Wilensky, Gail. "Medicare at 25: Better Value and Better Care," Journal of the American Medical Association 1990; 264(15): 1996-1997.

**Cutler, David. "The Incidence of Adverse Medical Outcomes Under Prospective Payment," Econometrica January 1995; 63(1): 29-50.**

XIII. Regulation and the Supply of New Drugs (No class 5/12, 5/17)

**Phelps, Chapter 16 (pp. 548-558)**

**Farley, Dixie. "Benefit vs. Risk: How FDA Approves New Drugs," FDA Consumer Dec. 1987-Jan. 1988:7-13.**

DiMasi, Joseph et al. "Cost of Innovation in the Pharmaceutical Industry," Journal of Health Economics 1991; 10:107-142.

Grabowski, Henry et al. "Estimating the Effects of Regulation on Innovation: An International Comparative Analysis of the Pharmaceutical Industry," Journal of Law and Economics 1978; 21(1):133-163.

Scherer, F.M. "The Pharmaceutical Industry " Chapter 13 in Handbook of Health Economics, A. Culyer and J. Newhouse editors, Elsevier Science Press, 2000.

XIV. Diffusion of Medical Innovations (5/17)

Warner, Kenneth. "A 'Desperation-Reaction' Model of Medical Diffusion," Health Services Research 1975; 10:369-383.

Barnes, Benjamin. "Discarded Operations: Surgical Innovation by Trial and Error," In Costs, Risks and Benefits of Surgery ed. Bunker et al. New York: Oxford University Press, 1977.

Steinberg, Earl et al. "X-ray, CT and Magnetic Resonance Imagers: Diffusion Patterns and Policy Issues," New England Journal of Medicine 1985; 313(14):859-61.

**Weisbrod, Burton. "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment," Journal of Economic Literature June 1991; 21: 523-552.**

XV. Small Area Variations Studies (5/17)

**Phelps, Chapter 3 (pp. 78-101) and 4 (pp. 165-173)**

Chassin, Mark et al. "Variations in the Use of Medical and Surgical Services by the Medicare Population," New England Journal of Medicine 1986; 314(5): 285-290.

Roos, Noralou. "Hysterectomy: Variations in Rates Across Small Areas and Across Physicians Practices," American Journal of Public Health 1984; 74(4):327-335.

**Wennberg, John et al. "Are Hospital Services Rationed in New Haven or Over-utilized in Boston?" Lancet May 23, 1987: 1185-1188.**

Wennberg, John et al. "Which Rate is Right?" New England Journal of Medicine 1986; 314(5): 310-311.

Phelps, Charles. "Diffusion of Information in Medical Care," Journal of Economic Perspectives 1992; 6(3): 23-42.

Phelps, Charles "Information Diffusion and Best Practice Adoption" Chapter 5 in Handbook of Health Economics, A. Culyer and J. Newhouse editors, Elsevier Science Press, 2000.

Phelps, Charles and Stephen Parente. "Priority Setting in Medical Technology and Medical Practice Assessment," Medical Care 1990; 28(8):703-723.

XVI. Decision Analysis and the Assessment of Medical Effectiveness (5/19)

Phelps, pp. 176-181.

**Pauker, Stephen and Jerome Kassierer. "Decision Analysis," New England Journal of Medicine 1987; 316(5):250-258.**

Beck, Robert and Stephen Pauker "The Markov Process in Medical Prognosis," Medical Decision Making 1983; 3(4):421-458.

**Detsky, Allan and Naglie, Gary. "A Clinician's Guide to Cost-Effectiveness Analysis." Annals of Internal Medicine 15 July 1990; 113 (2): 147-154.**

**Torrence, George. "Measurement of Health State Utilities for Economic Appraisal," Journal of Health Economics 1986; 5: 1-30.**

**Meltzer, David. "Accounting for Future Costs in Medical Cost-Effectiveness Analysis." Journal of Health Economics 1997; 16(1): 33-64.**

**Eddy, David. "The Economics of Cancer Prevention and Detection: Getting More for Less," Cancer 1981; 47:1200-1209.**

Mandelblatt, Jeanne and Marianne Fahs. "The Cost-effectiveness of Cervical Cancer Screening for Low-Income Elderly Women," Journal of the American Medical Association 1988; 259(16): 2409-2413.

Garber, Alan. "Can Technology Assessment Control Health Spending?" Health Affairs 1994; 13 (3): 115-126.

XVII. Access to Health Care (5/24)

**Phelps, Chapter 13**

**Friedman, Emily. "The Uninsured: From Dilemma to Crisis," Journal of the American Medical Association 1991; 265(19):2491-2495.**

**Kronik, Richard and Todd Gilmer. "Explaining the Decline in Health Insurance Coverage, 1979-1995," Health Affairs March/April 1999;18(2): 30-47.**

Farber, Henry and Helen Levy. "Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse?" Journal of Health Economics 2000 19: 93-119.

Bazzoli, Gloria. "Health Care for the Indigent: Overview of Critical Issues," Hlth. Services Res. 1986;21(3):353-93.

Marquis, Susan and Stephen Long. "The Uninsured Access Gap: Narrowing the Estimates" Inquiry Winter 1994-95; 31(4): 405-14.

Weissman, Joel et al. "Rates of Avoidable Hospitalization by Insurance Status in Massachusetts and Maryland," Journal of the American Medical Association 1992; 268(17): 2388-2394.

**Wenneker, Mark et al. "The Association of Payer with Utilization of Cardiac Procedures in Massachusetts," Journal of the American Medical Association 1990; 264(10): 1255-1260.**

Hadley, Jack et al. "Comparison of Uninsured and Privately Insured Hospital Patients," Journal of the American Medical Association 1991; 265(3): 374-379.

XVIII. Public Policies for Health Care Reform (5/24)

**Phelps, Chapter 17**

Cutler, David and Jonathan Gruber. "Does Public Insurance Crowd Out Private Insurance?" NBER Working paper #5082, April 1995.

Enthoven, Alain. "Consumer Choice Health Plan," New England Journal of Medicine 1978; 298(12):650-658 and 298(13):709-720.

Blendon, Robert and Jennifer Edwards. "Caring for the Uninsured: Choices for Reform," Journal of the American Medical Association 1991; 265(19): 2563-2565.

Himmelstein, David and Steffie Woolhandler et al. "A National Health Program for the United States: A Physicians' Proposal," New England Journal of Medicine 1989; 320(2): 102-108.

Davis, Karen. "Expanding Medicare and Employer Plans to Achieve Universal Health Insurance," Journal of the American Medical Association 1991; 265(19): 2525-8.

Rockefeller, John D. "The Pepper Commission's Blueprint for Health Care Reform," Journal of the American Medical Association 1991; 265(19): 2507-2510.

Starr, Paul and Walter Zelman. "Bridge to Compromise: Competition under a Budget," Health Affairs 1993; 12 (Supplement): 7-23.

**Enthoven, Alain. "The History and Principles of Managed Competition," Health Affairs 1993; 12 (Supplement): 24-48.**

**Newhouse, Joseph. "An Iconoclastic View of Health Cost Containment," Health Affairs 1993; 12 (Supplement): 152-171.**

Altman, Stuart and Alan Cohen. "The Need for a National Global Budget," Health Affairs 1993; 12 (Supplement): 194-203.

Aaron, Henry and William Schwartz. "Managed Competition: Little Cost Containment Without Budget Limits," Health Affairs 1993; 12 (Suppl.): 204-215.

Fielding, Jonathan and Thomas Rice. "Can Managed Competition Solve Problems of Market Failure?" Health Affairs 1993; 12 (Supplement): 216-228.

**Kreuger, Alan and Uwe Reinhardt. "The Economics of Employer versus Individual Mandates," Health Affairs 1994; 13 (2): 34-53.**

**Fuchs, Victor. "Health Care for the Elderly: How Much? Who Will Pay For It?" Health Affairs Jan./Feb. 1999; 18(1): 13-21.**

**Wiensky, Gail and Joseph Newhouse. "Medicare: What's Right? What's Wrong? What's Next?" Health Affairs Jan./Feb. 1999; 18(1): 92-106.**

**Course Requirements:** The course will require 3 problem sets (10% each), a final examination (40%), and a group policy briefing paper (20%) and presentation (10%). Because the answers to the problem sets will be discussed in the Answer Review sessions, problem set answers will be accepted only up to class time on their due date. In order to avoid lost papers, problem sets must only be turned in directly one of the instructors, and not left in mailboxes.

The group policy briefing paper will consist of a 5 page executive summary and no more than 25 pages of supporting materials, all double spaced. Groups should include 4-6 people. Topics may be chosen by the group with instructor approval. Some topics to consider:

1. Briefing paper for a Democratic senatorial candidate on Medicare prescription drug benefit
2. Briefing paper for a Republican senatorial candidate on Medicare prescription drug benefit
3. Briefing paper for the new Director of the Center for Medicare and Medicaid Services on the long-term financial solvency of Medicare
4. Briefing paper for the new Commissioner of the FDA on drug re-importation
5. Briefing paper for the CEO of a large pharmaceutical company on drug re-importation
6. Briefing paper for a Democratic presidential candidate to develop policy recommendations about NIH spending
7. Briefing paper for the dean of a medical school on the future of primary care
8. Briefing paper for the president of a hospital serving a racially diverse population on disparities in care by race
9. Briefing paper for the mayor of a city on a ban on smoking in all public places
10. Briefing paper for the head of the UN on priorities for research on health in developing countries

### **Critical Dates**

Groupings, requested topics due: Thursday 4/7

Problem set 1:

Distribution Date: Tuesday 4/5

Due Date: Thursday 4/14

Answer Review Session: Friday 4/15

Problem set 2:

Distribution Date: Tuesday 4/19

Due Date: Thursday 4/28

Answer Review Session: Friday 4/29

Problem set 3:

Distribution Date: Tuesday 5/3

Due Date: Thursday 5/12

Answer Review Session: Friday 5/20

Policy briefing papers due: Tuesday 5/24

Group presentation for graduating students: Thursday 5/26

Other group presentations Tuesday 5/31, Thursday 6/2

Final Exam: Friday 5/27