

Econ 456-01: Economics of Health Care

Department of Economics
College of William and Mary
Fall 2016

Professor: Peter Savelyev (pasavelyev@wm.edu)

Class meets: Mondays, Wednesdays, and Fridays:
8:00–8.50am, Tyler 134

Office Hours: Mondays 3:30–4:30pm, Wednesdays 4.15–5.15pm, or by appointment

Office Location: Tyler 247

TA: Jennifer Peek (jlpeek@email.wm.edu)

Office Hours Room: Tyler 218

Office Hours: Wednesdays and Thursdays, 4:00-4:45

Prerequisite: Intermediate Micro Theory (Econ 303)

About the Course: This course is an introduction to health economics, a fast growing field of applied economic research. Since US health spending has reached as much as 1/6th of GDP, health economics research is becoming increasingly influential in political policy decisions and more socially important. In this course, you will study concepts, research methods, and the institutional background of health economics. In particular, you will learn about the US health care system and health reform, determinants of health and longevity, demand for health and health care, value of life, supply of health care, demand for health insurance, moral hazard, adverse selection, comparative health systems, and universal insurance. Moreover, students will study one specific research area of their choice in great detail by writing a term paper.

About me: My primary research interests are in the fields of health economics, applied econometrics, and economics of human development. Prior to coming to William and Mary, I worked with James Heckman and other co-authors at the University of Chicago and taught at Vanderbilt.

Team Work: Teamwork is highly beneficial for learning since students learn from each other and get superior motivation. Moreover, teamwork creates social skills that are essential for students' future careers. I ask students to form teams of 3-4 people to work together on problem sets, term paper, and its presentation.¹ Please, answer the questionnaire on team formation and submit it at the third class. It is enough that just one member of the team submits the questionnaire for the whole team.

¹ Unless a team chooses to exclude its member for lack of contribution, all members of the team will share the same scores for home assignments and their original research presentation. It is up to the team how they divide the work. I allow teams to regroup if they find such changes productive. Please, report all changes in the team to the TA.

Team Formation Questionnaire (one form per team is enough)
Please, fill and return this form by the third class.

If you have a team, ask one member of the team to submit this form

1. *Your name:* _____
2. *Do you have a team of 3–4 students (including you) enrolled in this class? (Yes/No)*
[If no, please skip to question 5]
3. *Please list names of your team members (excluding you):*
1) _____
2) _____
3) _____
4. *Is your team open to admitting more members among those who found no team (to be assigned to your team by the Professor)? (Yes /No)*
[skip to question 6]
5. *Would you like to be assigned to a team by the Professor and the TA? Yes / No*
6. *Your notes if any:* _____

Grading Scale:

Group discussions in class, **5%**
Homework, **20%**
Midterm exam, **20%**
Term paper, **15%**
Presentation of the term paper, **10%**
Cumulative final exam, **30%**

If your score for the final exam is higher than your score for the midterm, then I will automatically replace your midterm exam score with the average between the midterm score and the final score. For instance, if you got 95% for the final and 85% for the midterm, I will automatically replace 85% with $90\% = (85+95)/2$. However, if your final is scored worse than your midterm, I will make no adjustments. The aim of this policy is to encourage academic progress and give students a chance to improve their midterm scores.

Your successful participation in group discussions in class (those are organized at random times with no prior announcement) earn you up to five percentage points over the semester. Missing class at which class discussion is held leads to a zero score for group discussion for that day.

Points will be subtracted for not attending presentations of your peers in the end of the semester and for not attending talks by guest speakers, if any (one percentage point per missed day of class). Points will not be subtracted for missing regular lectures, but students skipping classes may lose points indirectly by missing, for instance, important information or graded class discussion.

Finally, students who provide frequent and relevant contributions to class discussions, ask great questions, and provide answers to questions that I ask to class during lectures will be rewarded by higher grade in marginal cases (e.g, “almost an A score, but a bit lower leading to A-” will translate to an A for such student).

Abstract: You need to submit the title of your term paper and a 100-150-word abstract by the deadline (see the list of important dates below). Argue in the abstract why your paper is important, and which policy implications you would expect to be derived from your analysis.

Term paper: Each team must submit one joint paper by the deadline. The paper is a critical literature review on the topic of your choice related to economics of health and health care. “Critical” means that you not only survey the literature but express your own opinion about the research of others and its possible policy implications. Please, submit a hard copy of your term paper in class by the deadline specified below plus send an electronic copy to pasaveleyev@wm.edu by the deadline.

Option for ambitious and research-oriented students: It is allowed but not required that you contribute to existing research yourself and supplement your review with your original research results.

Please, make your paper informative but short: no more than 10 pages, 12pt font, double-sided.

Presentations: Each team will give a short in-class presentation of their term paper. Presentations will take place in the end of the semester (see “important dates” section below). It is not recommended to include videos into presentations: there will be little time per each talk, and so not enough time to show videos. Presentations are expected to take no more than 10-25 minutes depending on the number of teams presenting in the same day with you.

Final Exam: I will give a *cumulative* final exam (it covers all topics in the course, not only those after the midterm) at the end of the semester. Both midterm and final require closed books and notes. (See the list of important dates.)

Important Dates: 08/24: the first lecture
08/29: group questionnaire due
09/16: title and abstract of the term paper due in class
09/19: guest speaker Emily Baumgaertner presents in class (compulsory attendance) <http://pulitzercenter.org/people/emily-baumgaertner>
10/07: 50-min midterm in class

11/21: term paper due in class
11/28 and 11/30: students present their research in class (compulsory attendance)
12/2: the last lecture
12/14: 2-hour cumulative final, 9-11am, same class room
Deadlines for home assignments will be announced.

Computer policy: I allow using laptop computers and other electronic devices in class, but only for course-related purposes such as making notes or reading electronic handouts.

Feedback: I highly encourage students to provide me with feedback on how to further improve this course. I plan to conduct an informal survey to get feedback.

Disability Service: William & Mary accommodates students with disabilities in accordance with federal laws and university policy. Any student who feels s/he may need an accommodation based on the impact of a learning, psychiatric, physical, or chronic health diagnosis should contact Student Accessibility Services staff at 757-221-2509 or at sas@wm.edu to determine if accommodations are warranted and to obtain an official letter of accommodation. For more information, please see www.wm.edu/sas ."

**Topic Outline:
(Changes are possible)**

- 1 Overview: 08/24, 26, 29, 31
- 2 US Health Care System and the Health Reform: 09/2, 5, 7, 9, 12, 14
- 3.1 Determinants of Health and Longevity: Health Behaviors: 9/16, 21, 23
- 3.2 Determinants of Health and Longevity: Developmental Origins of Health 9/26, 28, 30
- 4 Demand for Health and Health Care: 10/3, 5, 12, 14, 17
- 5 Value of Health, Life, and Medical Progress: 10/19, 21, 24, 26, 28
- 6 Supply of Health Care: 10/31; 11/2, 4, 7, 9
- 7 The Demand for Health Insurance, Moral Hazard, and Adverse Selection: 11/11, 14, 16
- 8 Comparative Health Systems and Universal Insurance: 11/18, 21; 12/2

Required and Suggested Reading:

Required reading is *Health Economics* by Charles Phelps, 5th edition and a number of papers marked with an asterisk that are listed below and will be posted on Blackboard. The Handbook of Health Economics in two volumes edited by Culyer and Newhouse (2000) as well as suggested research papers listed below make a great supplementary reading for those who would like to pursue the subject in greater depth and to a higher technical level than it is required to successfully pass the course. Some of you may also find the handbook and the supplementary research papers helpful for working on your term paper. You can get access to the handbook of health economics through WM library web page. See blackboard for zipped folders with required and supplementary papers.

Notation:

*– required reading

No asterisk – suggested reading (for those who want to learn more than required to pass the course. Some suggested reading may help you better understand lecture slides or better prepare your in-class presentation.

*All lecture slides are part of the required reading (to be available on Blackboard/OAK)

[See a separate file on Blackboard/OAK for a much longer list of suggested reading]

“[source]” means that this reading was as one of major sources for the lecture handouts, and so if anything is unclear in lectures students can refer to the original source. However, lecture notes have many more sources than listed below. More minor sources are referred to directly from lecture slides.

1 Overview

*Phelps, “Health Economics,” 5th edition, Chapter 1 **[source]**

Culyer and Newhouse, 2000, “State and Scope of Health Economics,” *Handbook of Health Economics*, 1A: 1-8.

Emanuel E.J., Fuchs V.R., 2005, “Health Care Vouchers—A Proposal for Universal Change,” *New England Journal of Medicine*, 352:1255-1260.

2 US Health Care System and the Health Care Reform

*Phelps, “Health Economics,” 5th edition, Chapter 16 **[source]**

*Fuchs V., 1996, “Economics, Values, and Health Care Reform,” *American Economic Review*, 86(1): 1-24. [*required reading is part III only, pp 15-21, parts I and II are only suggested] **[source]**

*Milton Friedman, 2001. “How to Cure Health Care?” *The Public Interest* www.thepublicinterest.com/archives/2001winter/article1.html **[source]**

Amanda E. Kowalski, 2014. *The Early Impact of the Affordable Care Act, State by State*. Brookings Papers on Economic Activity, Fall 2014. http://www.brookings.edu/~media/Projects/BPEA/Fall-2014/Fall2014BPEA_Kowalski.pdf?la=en **[source]**

Casey B. Mulligan, 2013. *Average Marginal Labor Income Tax Rates under the Affordable Care Act*. NBER Working Paper No. 19365. August 2013 <http://www.nber.org/papers/w19365> **[source]**

3 Determinants of Health and Longevity; Developmental Origins of Health and Longevity

*Phelps, “Health Economics,” 5th edition, Chapter 2 **[source]**

Kai Hong, Peter Savelyev, and Kegen Tan. *Understanding the Mechanisms Linking Cognitive Skills, Socioemotional Skills, and College Education with Longevity*. Unpublished manuscript, Vanderbilt University, Department of

Economics, October 2015. First version: April 2014. Most updated working paper: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2638735 [source]

Becker, Murphy, and Grossman (2006). The Market for Illegal Goods: The case of Drugs. JPE. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=880802 [source]

Handbook of Health Economics, 2000. Chapters 29 (Economics of smoking), 30 (Alcohol), and 31 (Prevention).

Becker G., 2007, Health as Human Capital: Synthesis and Extensions, *Oxford Economic Papers*, 59(3):379-410.

Cutler, Deaton and Lleras-Muney, 2006, “The Determinants of Mortality,” *Journal of Economic Perspectives*, 20(3): 97-120.

4 Demand for Health and Medical Care

*Phelps, “Health Economics,” 5th edition, Chapters 4 and 5 (and look through chapter 2 again) [source]

Galama, Titus J. and van Kippersluis, Hans, A Theory of Education and Health (March 5, 2015). CESR-Schaeffer Working Paper No. 2015-001.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2577613 [source]

Deaton A., 2002, “Policy Implications of the Gradient of Health and Wealth,” *Health Affairs*, 21(2): 13-30.

Grossman M., 2004, “The Demand for Health, 30 Years Later: A Very Personal Retrospective and Prospective Reflection,” *Journal of Health Economics* 23(4):629-636.

5 Value of Health, Life, and Medical Progress

*Charles Phelps, Value of Life, Appendix to Chapter 14 [source]

*W. Kip Viscusi, 2005. The Value of Life (a working paper for the article in the *New Palgrave Dictionary of Economics*).

http://www.law.harvard.edu/programs/olin_center/papers/pdf/Viscusi_517.pdf

[source]

Viscusi W. K., 2013. Estimating the Value of a Statistical Life Using Census of Fatal Occupational Injuries (CFOI) Data. Working paper, Vanderbilt University. Forthcoming in *Monthly Labor Review*. [source]

Murphy K., Topel R., 2006, “The Value of Health and Longevity,” *Journal of Political Economy*, 114(5): 871-904. [source]

Becker G., 2007, Health as Human Capital: Synthesis and Extensions, *Oxford Economic Papers*, 59(3):379-410. [source]

6 Supply of Health Care: Hospitals and Physicians

*Phelps, “Health Economics,” 5th edition, Chapters 6 and 9 [source]

*Stable matching: Theory, evidence, and practical design. The Prize in Economic Science 2012. The Royal Swedish Academy of Sciences. [source]

7 Demand for Health Insurance and Medical Care, Moral Hazard and Adverse selection

*Phelps, “Health Economics,” 5th edition, Chapter 10 [source]

8 Comparative Health Systems and Universal Insurance

*Phelps, “Health Economics,” 5th edition, Chapter 16 [source]

Handbook of Health Economics, 2000. Chapters 1, 19, 34, and 35

I reserve the right to alter the form and content of the course in order to adjust to the needs and level of students enrolled in the class. Expected dates for topic presentation are based on previous experience and may somewhat change since I update the course each year