

**ECON 414: Health Economics  
Summer 2020**

Economics 414, Section 200  
Health Economics  
M-F 12:00-1:35 PM (online)

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COURSE DESCRIPTION:

This course analyzes the economics of health care in the United States, with particular attention to the role of third-party payers, including the government. It examines the demand for health care, and the structure and consequences of public and private health insurance, the supply of health care, including professional training and licensing. It also assesses the role of competition in health care markets, including competition among hospitals, insurance plans, physicians, and pharmaceutical manufacturers, among others. Finally, we assess the role of competition and regulation in medical innovation.

LEARNING OBJECTIVES:

The objectives of this course are to understand how economists model consumer and supplier behavior in health care markets, and the pervasive role of government policy on competition, innovation, and the quality and quantity of health care services.

PREREQUISITES:

ECON 323 is required.

COURSE MATERIALS:

The text used in this class is *Charles E. Phelps, Health Economics, 5<sup>th</sup> Edition* (6<sup>th</sup> edition is also useful). This text is required. PowerPoint presentations and videos of the lectures will be available on eCampus.

Some supplemental material is based on *John C. Goodman, Priceless: Curing the Health Care Crisis*.

GRADING REQUIREMENTS:

Grades will be made up of three components:

- (1) **Exams (75% of total grade):** There will be three tests worth 25 points each. The final exam will be the third test and counts as a regular test. Each test will consist of 6-7 essay questions, of which you will have to answer five. Collectively, these three tests will make up 75% of the total grade.  
The exams will be through eCampus on the date specified below. The tests will be available on eCampus from 8 am through 10 pm to make sure all the students can take the tests on the corresponding day at a convenient time. Once you start the exam, you will have 1 hour and 30 minutes to finish it.
- (2) **Analytical Policy Write-up (15% of total grade):** You are required to write one 2 pages essay based on health economics news or policy or academic article that you read either from one of the blogs cited in this syllabus or from another source. The purpose of this essay is to get each of you to engage with a current health policy issue. You can either compare or contrast two or more articles or blog posts on the same general health economics topic or do a more in-depth analysis of a single article. The supplemental

material described in each section of the outline can also be a useful reference for your policy write-up. The deadline for the short write-up is included below.

**The required format is 1.5 line spacing, Arial 11 points. Please use one line to write your name and the title.**

**Please include the citation of the article(s) you used as a reference.**

**NOTE: Your write-up should be submitted as a Turnitin assignment on eCampus. A link to the assignment would be available in the content area (same area where you accessed your Tests).**

- (3) **Article(s) discussion (10% of total grade):** Students are required to discuss an article (or set of articles). Groups of at most ten students will review each article (or set of articles). Students must sign up for a slot in a group by Friday, July 3 in the following document:

[https://drive.google.com/file/d/1xdnoTpvLGkx\\_ifWiwJAZIRxXO4xaFqAA/view?usp=sharing](https://drive.google.com/file/d/1xdnoTpvLGkx_ifWiwJAZIRxXO4xaFqAA/view?usp=sharing)

Students in each group will hold a discussion on eCampus about the corresponding articles to the group. Each student is expected to show some understanding of the main points of the paper(s) and their relationship with the topics of the course. It should not be a summary of the reading but rather comments that bring in the student's own thoughts and opinions. Some of these articles are academic papers. So, it is okay if the student does not fully understand the material, particularly the theoretical model or the empirical strategy sections. The students should try to understand what the research question is, the findings, and the conclusions, and how they relate to the course. The students are encouraged to include questions in the discussion of those parts they did not understand. The comments should not be longer than 400 words. The student should also briefly comment on at least one classmate's post. It could be a comment on the ideas or opinions of the other student or answers to her questions. If a student comments on your post, it is not necessary to answer back, but you are encouraged to do so. You should post your comments and discuss other students' posts no later than 8 pm on the deadline listed below.

This should be a healthy discussion in which you can learn from each other. It is important to provide opinions and thoughts, but also to be respectful of others' opinions. If you agree or disagree with the comments of other students, you should respectfully explain why. Students who engage in disrespectful comments or do not politely explain why they disagree with others' opinions will be penalized in their grade. Students must participate in the discussion of their selected group. A student that does not participate in the discussion of her group should have a valid reason for her absence according to the university's excused absences as outlined in Academic Rule 7 (<https://student-rules.tamu.edu/rule07/>). Students in this situation must email me within 48 hours after the discussion to alert me of the situation. In that case, the student will be assigned to participate in another group.

NOTE: Groups 1, 2, and 6 will read more than one article. Each article is short. Those that register in these groups can also focus the discussion on how the articles relate to each other.

The articles will be available in a folder on eCampus.

#### FINAL GRADE:

No grade changes will be made for any reason other than an error on my part. Letter grades will be given as follows:

|               |   |
|---------------|---|
| ≥ 90          | A |
| ≥ 80 and < 90 | B |
| ≥ 70 and < 80 | C |
| ≥ 60 and < 70 | D |
| < 60          | F |

#### ONLINE CLASS DESCRIPTION:

This is an asynchronous class. This means that the class will not be live. I will post videos with the corresponding content of the class for that day. Since not all the students may have access to a computer or to the internet at the time of the class, this will improve their chances to study the topics of the course whenever it is more convenient for them.

#### Useful Health Economics Policy Blogs and websites:

The Health Affairs Blog:

<https://www.healthaffairs.org/blog>

The Health Care Economist:

<https://www.healthcare-economist.com/>

The Health Care Blog:

<https://thehealthcareblog.com/blog/tag/economics/>

The Incidental Economist:

<https://theincidentaleconomist.com/>

The National Bureau of Economic Research (NBER):

<https://www.nber.org/>

(If you are interested in studies on the economic impacts of COVID-19, NBER has a list of new working papers on this matter, updated every week on Mondays)

#### MAKE-UP TESTS:

Make-up exams will only be given for university excused absences as outlined in Academic Rule 7 (<https://student-rules.tamu.edu/rule07/>); absences must be documented in line with Rule 7. In addition, you must email me within 48 hours after the exam to alert me of the situation. Make-up tests are in essay format with 5 to 6 questions covering the material for the relevant test.

#### OFFICE HOURS:

Since an asynchronous class limits the chances to interact with me and ask questions, I will hold office hours on a fixed schedule, but also by appointment.

The fixed schedule is Monday, Wednesday, and Friday from 10:00 to 11:00 am. The following link is the invitation to the recurring Zoom meeting for the office hour:

Join Zoom Meeting

<https://tamu.zoom.us/j/96490008024>

If the fixed schedule represents a schedule conflict, I will also hold office hours on Tuesday and Thursday by appointment. If none of these options work for you, please send me an email to make additional appointments if necessary.

I encourage you to attend office hours to discuss any questions or issues you have with the course.

You can also contact me through email with your questions. I will answer emails from Monday through Friday from 3 to 5 pm. You will receive an answer within 24 hours.

If you have not use Zoom before, please check the following website:

<https://it.tamu.edu/services/audio-video-and-telecommunication/audio-video/zoom/>

#### TENTATIVE COURSE OUTLINE:

#### I. Basics of Health Care Demand

##### 1. Why Health Economics

###### **June 30: Chapter 1**

Supplemental reading:

*Priceless* Chapters 1, 2, and 5.

Reinhardt, U. E., Hussey, P. S., & Anderson, G. F. (2004). U.S. health care spending in an international context. *Health Affairs*, 23(3), 10-25.

Blendon, R. J., Schoen, C., DesRoches, C., Osborn, R., & Zapert, K. (2003). Common concerns amid diverse systems: health care experiences in five countries. *Health Affairs*, 22(3), 106-121.

###### **July 1: Chapter 16**

##### 2. Utility and Health Care

###### **July 2-3: Chapter 2**

Supplemental Reading:

*Priceless* Chapters 4 and 6

Arrow, K. J. (1978). Uncertainty and the welfare economics of medical care. In *Uncertainty in economics* (pp. 345-375). Academic Press.

###### **DISCUSSION GROUP 1- July 6 (three articles):**

Cutler, D. & Lleras-Muney, M. (2014). Education and Health. *Encyclopedia of health economics*, Culyer AJ (editor), 232-245.

Vogl, T. S. (2014). Education and health in developing economies. *Encyclopedia of health economics*, Culyer AJ (editor), 246-249.

Chatterji, P. (2014). Education and Health: Disentangling Causal Relationships from Associations. *Encyclopedia of Health Economics*, Culyer AJ (editor), 250-258.

###### **July 6-7: Chapter 3**

##### 3. Demand for Medical Care

###### **July 8-9: Chapter 4**

Supplemental Readings:

*Priceless*, Chapter 7

Gawande, A. (2009). The cost conundrum. *The New Yorker*, 1, 36-44.

Johnson, C. (2018). "The Real Reason the U.S. Spends Twice as Much on Health Care as Other Wealthy Countries." *Washington Post*. 13 March 2018.

**DISCUSSION GROUP 2 - July 10 (two articles):** Anderson, G.F. Reinhardt, U.E. Hussey, P.S., Petrosyan, V. (2003). "It's the Prices, Stupid: Why the United States is So Different from Other Countries." *Health Affairs*. 22(3):89-105, and Papanicolaos, I., Woskie, L. R., & Jha, A. K. (2018). Health care spending in the United States and other high-income countries. *Jama*, 319(10), 1024-1039.

### July 10 and 13: Chapter 5

Supplementary Readings: Newhouse, J. P. (2004). Consumer-directed health plans and the RAND Health Insurance Experiment. *Health Affairs*, 23(6), 107-113.

### **TEST 1: July 14 (Preliminary Date)** **Chapter 1-5, 16**

**DISCUSSION GROUP 3 – July 16:** Kearney, M. S., & Levine, P. B. (2012). Why is the teen birth rate in the United States so high and why does it matter? *Journal of Economic Perspectives*, 26(2), 141-63.

## II. The Economics of Health Insurance

### 1. Basics of Health Insurance

#### July 15-17: Chapter 10

Supplemental Reading: *Priceless*, Chapter 8.

Manning, W. G., Newhouse, J. P., Duan, N., Keeler, E. B., & Leibowitz, A. (1987). Health insurance and the demand for medical care: evidence from a randomized experiment. *The American economic review*, 251-277.

Pauly, M. V. (1968). The economics of moral hazard: comment. *The American economic review*, 58(3), 531-537.

Nyman, J. A. (2004). Is 'moral hazard' inefficient? The policy implications of a new theory. *Health Affairs*, 23(5), 194-199.

Bhargava, S., Loewenstein, G., & Sydnor, J. (2017). Choose to lose: Health plan choices from a menu with dominated option. *The Quarterly Journal of Economics*, 132(3), 1319-1372.

#### July 20: Chapter 10-11

Supplemental Readings:

*Priceless*, Chapters 9 and 10.

Haviland, A. M., Eisenberg, M. D., Mehrotra, A., Huckfeldt, P. J., & Sood, N. (2016). Do "Consumer-Directed" health plans bend the cost curve over time? *Journal of health economics*, 46, 33-51.

## 2. Government-Sponsored Health Insurance

### **July 21: Chapter 12**

Supplemental Readings: Priceless, Chapters 14 and 15

Finkelstein, A., Taubman, S., Wright, B., Bernstein, M., Gruber, J., Newhouse, J. P., ... & Oregon Health Study Group. (2012). The Oregon health insurance experiment: evidence from the first year. *The Quarterly journal of economics*, 127(3), 1057-1106.

Huh, J., & Reif, J. (2017). Did Medicare Part D reduce mortality? *Journal of health economics*, 53, 17-37.

Miller, S., Altekruze, S., Johnson, N., & Wherry, L. R. (2019). Medicaid and mortality: new evidence from linked survey and administrative data (No. w26081). *National Bureau of Economic Research*.

**DISCUSSION GROUP 4 - July 22:** Gruber, J., & Sommers, B. D. (2019). The Affordable Care Act's effects on patients, providers, and the economy: What we've learned so far. *Journal of Policy Analysis and Management*, 38(4), 1028-1052.

**DISCUSSION GROUP 5- July 22:** Card, D., Dobkin, C., & Maestas, N. (2009). Does Medicare save lives? *The Quarterly Journal of Economics*, 124(2), 597-636.  
Note: No need to thoroughly read sections III, IV, V.E., and the Appendix.

## 3. Externalities in Health and Medical Health Care

### **July 22-23: Chapter 14**

Supplemental Readings:

Dave, D. M., Friedson, A. I., Matsuzawa, K., & Sabia, J. J. (2020). When do shelter-in-place orders fight COVID-19 best? Policy heterogeneity across states and adoption time (No. w27091). *National Bureau of Economic Research*.

Okyere, M. A., Forson, R., & Essel-Gaisey, F. (2020). Positive externalities of an epidemic: The case of the coronavirus (COVID-19) in China. *Journal of Medical Virology*.

Bethune, Z. A., & Korinek, A. (2020). Covid-19 infection externalities: Trading off lives vs. livelihoods (No. w27009). *National Bureau of Economic Research*. (This article is a little bit too technical)

### **TEST 2: July 24 (Preliminary Date)** **Chapter 10-12, and 14**

### **DISCUSSION GROUP 6 – July 27 (Four articles):**

Economic analysis of COVID-19 responses (part 1). *The Incidental Economist*.  
<https://theincidentaleconomist.com/wordpress/econ-covid-1/>

Economic analysis of COVID-19 responses (part 2). The Incidental Economist.  
<https://theincidentaleconomist.com/wordpress/econ-covid-2/>

Mulligan C., Murphy, K. M., & Topel, R. H. (2020). "Some basic economics of COVID-19 Policy," *Chicago Booth Review*.

<https://review.chicagobooth.edu/economics/2020/article/some-basic-economics-covid-19-policy>

Dubois, R. (2020) "It's Time To Talk About COVID-19 Prices," *Health Affairs*.  
<https://www.healthaffairs.org/doi/10.1377/hblog20200518.302353/full/>

### III. Supply of Health Care Services

#### 1. Physician Markets

##### **July 27-30: Chapter 6**

Supplemental Readings:

Ginsburg P. B. & Grossman, J. M. (2005), When the Price Isn't Right: Payment Incentives Drive Medicare," *Health Affairs*, pp. 376-384.

Sandy, L. G., Bodenheimer, T., Pawlson, L. G., & Starfield, B. (2009). The political economy of U.S. primary care. *Health Affairs*, 28(4), 1136-1145.

Bodenheimer, T., Berenson, R. A., & Rudolf, P. (2007). The Primary Care-Specialty Income Gap: Why it Matters, *Annals of Internal Medicine*, pp. 301-306.

**DISCUSSION GROUP 7 – July 28:** Agha, L., Frandsen, B., & Rebitzer, J. B. (2019). Fragmented division of labor and healthcare costs: Evidence from moves across regions. *Journal of Public Economics*, 169, 144-159.

##### **July 31: Chapters 7-8**

Supplemental Readings: Kessler, D., & McClellan, M. (1996). Do doctors practice defensive medicine? *The Quarterly Journal of Economics*, 111(2), 353-390.

##### **ANALYTICAL WRITE-UP: July 30**

#### 2. Hospital Markets

##### **July August 3: Chapter 8**

Supplemental Readings:

Clement, J. P. (1997). Dynamic cost shifting in hospitals: Evidence from the 1980s and 1990s. *Inquiry*, 340-350.

Cutler, D. M., & Sheiner, L. (1998, January). Managed care and the growth of medical expenditures. In Forum for Health Economics & Policy (Vol. 1, No. 1). De Gruyter.

Cutler, D. M., McClellan, M., & Newhouse, J. P. (2000). How does managed care do it? *The Rand journal of economics*, 526-548.

##### **FINAL EXAM: August 4**

## Chapter 6-8

Dates for discussion groups, analytical write-up, and tests:

Discussions (day of deadline in parenthesis at 8:00 pm):

- GROUP 1: July 6
- GROUP 2: July 10
- GROUP 3: July 16
- GROUP 4: July 22
- GROUP 5: July 22
- GROUP 6: July 27
- GROUP 7: July 28

Analytical write-up: July 30 (11:59 pm)

- Test 1: July 14
- Test 2: July 24
- Test 3: August 4

### ACADEMIC INTEGRITY STATEMENT AND POLICY

This class will adhere strictly to the university honor code. Honor Council Rules and Procedures are on the web: <http://aggiehonor.tamu.edu/>

*"An Aggie does not lie, cheat or steal, or tolerate those who do."*

Academic honesty will be strictly observed. Anyone who attempts to cheat will be dealt with severely.

### AMERICANS WITH DISABILITIES ACT (ADA) POLICY STATEMENT

The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring an accommodation, please contact Disability Services, currently located in the Disability Services building at the Student Services at White Creek complex on west campus or call 979-845-1637. For additional information, visit <http://disability.tamu.edu>.

**STUDENT LEARNING OUTCOMES:** Texas A&M University has identified student learning outcomes that describe our institutional commitment to your education goals. These include the ability to demonstrate critical thinking, effective communication, and social, cultural, and global competence. Please see [http://provost.tamu.edu/essentials/pdfs/copy\\_of\\_UndergraduateLearningOutcomesFinal.pdf/vi](http://provost.tamu.edu/essentials/pdfs/copy_of_UndergraduateLearningOutcomesFinal.pdf/vi)  
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