

Health Care Financing and Management Syllabus, Spring 2012, Yan Feng

Health Care Financing and Management

Peking University HSBC Business School

Instructor: Feng, Yan
Room 407, Building C
Tel. (O): 26032985
fengyan@phbs.pku.edu.cn

Class Hours: April 16th to June 18th
Mondays and Thursdays
3:30pm-5:20pm

Classroom: C104

Office Hours: Wednesdays 3:00pm-5:00pm, or by appointment.

Teaching Assistant: TBD

1. Course Overview

Arrow highlighted the prevalence of uncertainty in health care markets: physicians are uncertain about how to treat patients, especially when medical technology is changing so rapidly; patients are uncertain about the effectiveness of medical treatment with limited knowledge of medicine; and consumers and health plans are uncertain about the appropriateness and quality of providers' services.

Economic models explain some but by no means all consumer and producer behaviors in the medical services sector, and as for making health care policies, the economic concept of efficiency is a helpful criterion but not the only criterion for judging the desirability of alternative arrangement (e.g., distributions and redistributions). Given the uneasy balance of efficiency and equality/equity, there is by no means a best health care system suitable for every society, which is especially true for a developing economy like China. In this class we will discuss why standard economic models of behavior and efficiency sometimes work and matter and sometimes do not in this industry. We are going to discuss the available information related but not limited to the following questions: do people behave in ways that are or could be made to be efficient (and equitable)? how much inefficiency is there in this industry and what are the causes? how is health care usually financed in a society? and how might a country better manage its resources dedicated to improving the health of its population?

The main context of this course is: (1) to consider the economic analysis of the medical care sector, namely how medical care is provided and financed; (2) to explore the implication of market failures in health care market such as moral hazard, adverse selection, and externality; and (3) to help you get informed with the making of health policies and how different health system evolved and developed, and also to discuss various reform ideas. In this course, you shall be able to utilizing theory to analyze health care financing and reform policy.

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Comments and questions in class are strongly encouraged. Things that seem confusing or controversial are usually that way for many students; everyone will benefit if you ask questions. And because the class will deal with policy, there is a lot of room for honest feedback and constructive disagreement. No one knows the complete answer, or even the right answer, to many of the questions that will be raised in the classes. We do not set out to find the perfect answers, in different context, a solution may have quite ambiguous delivery and effect. However, if you do not think you can tolerate the fact that most of the discussion will be from the point of view of economists and will seem to be somewhat detached (that is, not from the point of view of a beneficiary or a kind-hearted philanthropist), then you probably shouldn't be taking this class.

2. Course Requirements

Requirements

- Intermediate level of microeconomics is a prerequisite;
- Students are suggested and expected to read all assigned readings or notes before each class;
- Any submitted work should be typed, using 12-pitch font size and Times New Roman or Arial type (no fancy fonts, please), double-spaced, and with no more than one-inch margins; submitted work can be hard copies (dropped in my mailbox before deadline) or electronic versions sent to my email address, attention to English grammar and clarity of writing are expected;
- Assigner work is expected to be turned in before pre-set deadline. Work submitted after deadline will be graded as "0" unless permission from the professor is granted in advance under special circumstances.

Coursework

There is no regular homework for this class, but you will be requested to write a term paper on a health topic that is of interest to you, it does not have to be an full-fledged academic research paper. The main part of this paper should be at least 10 pages long (single-sided count), but not exceeding 15 pages, or not exceeding 20 pages with references and appendices included. You may use materials from the class, journal articles, economic magazine and newspaper articles, and the internet resources to support your argument in your paper, but there should be **NO** copying and pasting from the original materials. The format should be consistent with the course requirement. The deadline for turning in the paper is June 25th, 5:30pm sharp.

Grading

Class participation	10%
Term paper	30%
Midterm exam (closed book)	30%
Final exam (closed book)	30%

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3. Course Materials

Students are not required to buy books for this class. However, I do recommend 2 books as reference. Coming to the classes prepared and taking necessary notes will be the most efficient and beneficial way of acquiring a broad and systematic understanding of the topics.

Recommended Books

- Sherman Folland, Allen Goodman, and Miron Stano, *The Economics of Health and Health Care*, Prentice Hall, 7th Edition, 2012
- Thomas E. Getzen, *Health Economics and Financing*, Wiley, 4th Edition, 2010

In addition, "Handbook of Health Economics", edited by A.J. Culyer and Joseph P Newhouse (Volume A and B, Elsevier Science, 2000) will be a great reference if you are seriously interested in further academic research in health care related issues.

Additional Readings

Some selected pivotal readings are listed for each topic. They will be provided by the professor, all of which are strongly recommended.

4. Class Schedule

Due to the scheduled amount of teaching hours, in this class, we will be covering the most basic and most important topics, which include several subtopics. There may be certain topics not covered during this time period that you are interested to know, I suggest the students to find the answers in the reading materials and the books, and to utilize other public sources for updated debates regarding health care issues.

Topic 1 **Introduction: What's Different about Medical Care? Overview of the Health Care Market**

Readings

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

Lees, Dennis S. and Robert Rice, 1965, "Uncertainty and the Welfare Economics of Medical Care: Comment," *The American Economic Review* 55(1/2):140-154.

Topic 2 **The Demand for Medical Care and Health**

Readings

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

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Dardanoni, Valentino and Adam Wagstaff, 1987, "Uncertainty, Inequalities in Health and the Demand for Health," *Journal of Health Economics* 6: 283-290. (A simpler version of the Grossman model is presented in this article. You may want to read this article first).

Porter, Michael E. 2010, "What is Value in Health Care?" *New England Journal of Medicine* 363:2477-2481.

Mushkin, Selma, 1962, "Health as an Investment," *The Journal of Political Economy* 70(5):129-157.

Ellen O'Brien, 2003, "Employers' Benefits from Workers' Health Insurance," *The Milbank Quarterly* 81(1):5-43.

Topic 3 Financing Health Care: Health Insurance, Risk Pooling, and Moral Hazard

Readings

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

Long, John D., 1972, "Risk Uncertainty, and Moral Hazard: Comment," *The Journal of Risk and Insurance* 39(1):130-135.

Manning, Willard et al. 1987, "Health Insurance and the Demand for Medical Care," *The American Economic Review* 77(3):251-277.

Zeckhauser, Richard, 1970, "Medical Insurance: A Case Study of Trade-Off between Risk Spreading and Appropriate Incentives," *Journal of Economic Theory* 2(1):10-26.

Rosett, Richard N. and Lien-fu Huang, 1973, "The Effect of Health Insurance on the Demand for Medical Care," *The Journal of Political Economy* 81(2):281- 305.

Gaynor, Martin et al., 2000, "Are Invisible Hands Good Hands? Moral Hazard, Competition, and the Second-Best in Health Care Markets," *The Journal of Political Economy* 108(5):992-1005.

Ehrlich, Isaac and Gary Becker, 1972, "Market Insurance, Self-Insurance, and Self-Protection," *The Journal of Political Economy* 80(4):623-648.

Topic 4 Financing Health Care: Individual and Group Health Insurance, Asymmetric Information and Risk Selection

Readings

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Akerlof, George, 1970, "The Market for Lemons," *The Quarterly Journal of Economics* 84(3):488-500.

Cutler, David and Richard Zeckhauser, 2000, "The Anatomy of Health Insurance," in *Handbook of Health Economics*, Vol. 1A, Chapter 11:606-629 only.

Rothschild, Michael and Joseph Stiglitz, 1976, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *The Quarterly Journal of Economics* 90(4):629-650.

Frank, Richard G., Jacob Glazer, and Thomas G. McGuire, 2000, "Measuring Adverse Selection in Managed Health Care," *Journal of Health Economics* 19:829-854.

Topic 5 Financing Health Care: Health Care and the Public Sector

Readings

Cutler, David, 2002, "Health Care and the Public Sector," in *Handbook of Public Economics*, Vol. 4, Chapter 31(except for sections 5&8).

Cutler, David and Jonathan Gruber, 1996, "Does Public Insurance Crowd Out Private Insurance?" *The Quarterly Journal of Economics* 111(2):391-430.

Pauly, mark, 1974, "Overinsurance and Public Provision of Insurance: The Roles of Moral Hazard and Adverse Selection," *The Quarterly Journal of Economics* 88(1):44-62.

Topic 6 The Supply of Medical Care: Asymmetric Information and Agency, Hospitals and Physicians

Readings

Goldstein, Gerald and Mark Pauly, 1976, "Group Health Insurance as a Local Public Good," in *The Role of Health Insurance in the Health Services Sector*, ed. Rosett, NBER.

Pauly, Mark, 1995, "Paying Physicians as Agents: Fee for Service, Capitation or Hybrids?" in *Health Care Policy and Regulation*. Kluwer, ed. T. Abbott, ch9:163-174.

Ellis, Randall and Thomas McGuire, 1990, "Optimal Payment Systems for Health Services," *Journal of Health Economics* 9:375-396.

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McGuire, Thomas and Mark Pauly, 1991, "Physician Response to Fee Changes With Multiple Payers," *Journal of Health Economics* 10(4):385-410.

Pauly, Mark and Michael Redisch, 1973, "The Not-For-Profit Hospital as a Physicians' Co-operative," *The American Economic Review* 63(1):87-100.

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

Dranove, David, 1988, "Pricing by Non-Profit Institutions: The Case of Hospital Cost-Shifting," *Journal of Health Economics* 7(1):47-57.

Dranove, David, 1988, "Demand Inducement and The Physician-Patient Relationship," *Economic Inquiry* 26(2):281-298.

Topic 7 The Market for Pharmaceuticals

Readings

Scherer, F. M., 2000, "The Pharmaceutical Industry," in Handbook of Health Economics, Vol. 1B, Chapter 25.

Grabowski, Henry and John Vernon, 2000, "The Determinants of Pharmaceutical Research and Development Expenditures," *Journal of Evolutionary Economics* 10:201-215.

Kyle, Margaret, 2005, "Pharmaceutical Price Controls and Entry Strategies," Working paper.

Lichtenberg, Frank, 1998, "Pharmaceutical Innovation, Mortality Reduction, and Economic Growth," NBER working paper 6569.

Lichtenberg, Frank R. and Tomas J. Philipson, 2002, "The Dual Effects of Intellectual Property Regulations: Within- and Between-Patent Competition in the U.S. Pharmaceuticals Industry," *Journal of Law and Economics* 45(2):643-672.

Topic 8 Health System Reforms

Readings

Burton A. Weisbrod, 1991, "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment," *Journal of Economic Literature* 29(2):523-552.

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Cutler, David, 2002, "Equality, Efficiency, and Market Fundamentals: The Dynamics of International Medical-Care Reform," *Journal of Economic Literature* 40(3):881-906.

Diamond, Peter, 1992, "Organizing the Health Insurance Market," *Econometrica* 60(6):1233-1254.

5. Important Dates

Term paper due: 5:30pm June 25th

Midterm: TBD

Final: TBD