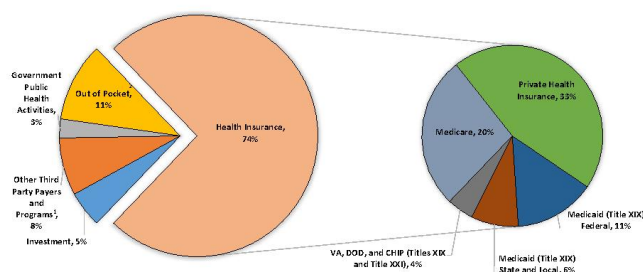


Economics of Health
Economics 340 • Spring 2018
University of Massachusetts Amherst
Monday and Wednesday • 2:30–3:45 PM • Herter 111

Michael Ash, Professor of Economics and Public Policy

January 22, 2018

THE NATION'S HEALTH DOLLAR (\$3.2 TRILLION), CALENDAR YEAR 2015:
WHERE IT CAME FROM



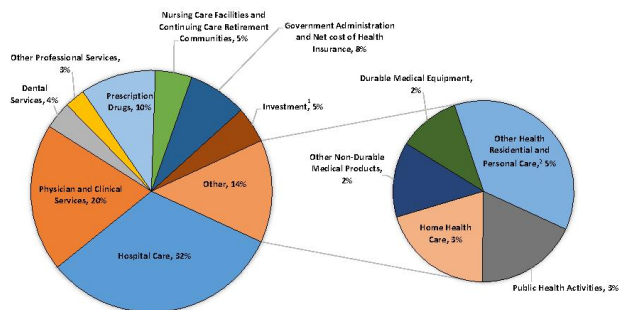
¹Includes worksite health care, other private revenues, Indian Health Service, workers' compensation, general assistance, maternal and child health, vocational rehabilitation, Substance Abuse and Mental Health Services Administration, school health, and other federal and state local programs.

²Includes co-payments, deductibles, and any amounts not covered by health insurance.

Note: Sum of pieces may not equal 100% due to rounding.

SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

THE NATION'S HEALTH DOLLAR (\$3.2 TRILLION), CALENDAR YEAR 2015,
WHERE IT WENT



¹Includes Noncommercial Research (2%) and Structures and Equipment (3%).

²Includes expenditures for residential care facilities, ambulance providers, medical care delivered in non-traditional settings (such as community centers, senior citizens centers, schools, and military field stations), and expenditures for Home and Community Waiver programs under Medicaid.

Note: Sum of pieces may not equal 100% due to rounding.

SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

Basic Information

Michael Ash 306 Crotty Hall

Tuesday 10 AM - 11:30 AM and Wednesday 10 AM–11:30 AM

Email mash@econs.umass.edu

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This syllabus: <http://courses.umass.edu/econ340>

Hard copy: <http://courses.umass.edu/econ340/syllabus.pdf>

1 Objectives, Content, and Methods

The course provides an overview of the economics of health and of health care with special attention to the roles of market failure, equity, and policy. Economics of Health will apply the tools of economics and quantitative analysis to understanding the structure, performance, and problems of health and the health care sector. Students will develop institutional knowledge and analytic tools needed to contribute to public policy debates about health and health care.

Topics include the definition and determinants of health; health, socioeconomic status, and inequality; demand for health care; health care provision; technology and pharmaceuticals; private and public insurance; health and the labor market. Although the focus is on the United States, we will compare health and health care across the developed economies and briefly consider health in less developed countries.

The prerequisite for taking Economics of Health is successful completion of Intermediate Microeconomics (UMass Econ 203 or equivalent). Familiarity with quantitative methods (for example, how to interpret the mean and standard deviation, contingency tables, and scatterplots) will be useful as well.

2 Requirements and Grading

This course demands a lot of reading and writing, and you must keep up to date with assignments. Please complete readings by the due dates indicated in the schedule so that you can participate in discussion and benefit more from lecture.

You are required to attend and to participate in class discussion. After two unexcused absences, each subsequent unexcused absence will cost three percentage points from the final grade. Valid excuses include medical necessity (with a note from a care provider) or arrangements made in advance with me.

2.1 Grading

You will earn a grade based on class presentations, your writing, and a final exam. A breakdown of the grade follows.

Course Component	Points
Participation	25
Written Work/Problem Sets	35
Midterm	20
Final Exam	20
Total	100

Grades will be assigned according to the following schedule. Please note that your grade depends on a fixed standard of comprehension and expression and not on comparisons to

other students. Therefore, you should feel comfortable discussing and sharing your notes, ideas, and writing with your fellow students.

Cut-off	93	90	87	83	80	77	73	70	60	–
Grade	A	A–	B+	B	B–	C+	C	C–	D	F

2.2 Readings and Web Resources

The required books for the course are *Our Unsystematic Health Care System, Fourth Edition* and *Unequal Health* both by Grace Budrys. The books are small and cheap. Please buy the books and bring the current readings with you to class.

Other readings for the course will be linked from the syllabus or the course web site or given as handouts in class. **You must take responsibility for downloading and reading the material.**

I will ask you to examine web pages, for example, to retrieve data on health care expenditure from the [Center for Medicare and Medicaid Services](#) or to read an article by the [Economic Policy Institute](#) about workers without health insurance. Please let me know as soon as possible if you would like a brief lesson on the use of a web browser for research and retrieval.

3 Course Themes and Links to Readings

3.1 The Institutions of Health Care in the United States

- Unsystematic, Chapter 1: The Health Care System: An Overview
- Unsystematic, Chapter 2: Opinions on Health Care Reform
- Unsystematic, Chapter 3: Hospitals and Other Health Care Organizations
- Unsystematic, Chapter 4: Health Care Occupations
- Unsystematic, Chapter 5: Private Health Insurance
- Unsystematic, Chapter 6: Public Health Insurance
- Unsystematic, Chapter 7: The Health Care Systems in Other Countries
- Unsystematic, Chapter 8: Health Care Reform: Is It Working?
- Unsystematic, Chapter 9: Provocative Questions and Challenging Exercises

3.2 The Economic Theory of Health Care (in the United States?)

- Arrow, Kenneth J., “Uncertainty and the Welfare Economics of Medical Care,” *The American Economic Review*, Vol. 53, No. 5, Dec., 1963 pp. 941-973¹
- George A. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism,” *The Quarterly Journal of Economics*, Vol. 84, No. 3, Aug., 1970, pp. 488-500²

¹<http://www.jstor.org/stable/1812044>

²<http://www.jstor.org/stable/1879431>

- Uwe E. Reinhardt, “Economists in Health Care: Saviors, or Elephants in a Porcelain Shop?” *The American Economic Review*, Vol. 79, No. 2, Papers and Proceedings of the Hundred and First Annual Meeting of the American Economic Association. (May, 1989), pp. 337-342.³

3.3 Health, Sickness, and Death in America

Modelling; policy analysis; welfare analysis; equity and efficiency *Measuring Good Health, Bad Health, and Death* *The importance of data*

- Unequal Health, Chapter 1, Introduction
- Unequal Health, Chapter 2, Identifying Disease and Its Causes
- Unequal Health, Chapter 3, Causes of Death
- Unequal Health, Chapter 4, Age, Sex, and Race or Ethnicity
- Unequal Health, Chapter 5, External Causes of Death
- Unequal Health, Chapter 6, Health and Unhealth Behaviors: Diet
- Unequal Health, Chapter 7, Health and Unhealth Behaviors: Exercise, Smoking, and Substance Abuse
- Unequal Health, Chapter 8, Health Care
- Unequal Health, Chapter 9, Genes
- Unequal Health, Chapter 10, Stress
- Unequal Health, Chapter 11, Social Determinants of Health
- Unequal Health, Chapter 12, Social Inequality
- Unequal Health, Chapter 13, Unequal Health
- Anne Case and Angus Deaton, “Mortality and morbidity in the 21st century,” 2017⁴
- Anne Case and Angus Deaton, “Rising morbidity and mortality in midlife among white non-Hispanic Americans in the 21st century”, *Proceedings of the National Academy of Sciences*, 2015⁵
- Cutler, Deaton, Lleras-Muney, “The Determinants of Mortality,” *Journal of Economic Perspectives*, 20(3), Summer 2006, pp. 97-120.⁶
- Health Status, Health Insurance, and Health Services Utilization: 2001, U.S. Census Bureau, February 2006⁷
- Film: The Angry Heart: the impact of racism on heart disease
- Ali H. Mokdad, “Actual Causes of Death in the United States, 2000,” *JAMA*, 291(10), March 10, 2004⁸

³<http://www.jstor.org/stable/1827781>

⁴<https://www.brookings.edu/bpea-articles/mortality-and-morbidity-in-the-21st-century/>

⁵<http://www.pnas.org/content/112/49/15078>

⁶<http://www.jstor.org/stable/30033668>

⁷http://courses.umass.edu/econ340/status_insurance_utilization_census.pdf

⁸<http://jama.ama-assn.org/cgi/content/abstract/291/10/1238>

3.3.1 Social Organization and Health

These readings should be complete by Friday, April 2.

- Epstein, Helen, “Enough to Make You Sick?” *The New York Times Sunday Magazine*, Section 6, Page 75, Column 3, October 12, 2003.
- Gump and Matthews, “Are Vacations Good for Your Health?,” *Psychosomatic Medicine* 62:608-612, 2000⁹
- Blanchflower and Oswald, “Hypertension and Happiness across Nations” *Journal of Health Economics*¹⁰
- Banks, et al., “Disease and Disadvantage in the United States and England,” *JAMA* 295(17), May 2006¹¹

3.3.2 Medical Care, Genetics, and Other Challenges for Health

How important is medical care?

The implications of genetic screening

3.4 A closer look at the Institutions

3.4.1 Hospitals

- Joseph P. Newhouse, “Toward a Theory of Nonprofit Institutions: An Economic Model of a Hospital,” *The American Economic Review*, Vol. 60, No. 1 (1970), pp. 64-74¹²
- The Not-For-Profit Hospital as a Physicians’ Cooperative. Mark Pauly, Michael Reisch, *The American Economic Review*, Vol. 63, No. 1 (Mar., 1973), pp. 87-99¹³

3.4.2 Physicians

- The Checklist: If something so simple can transform intensive care, what else can it do? Atul Gawande *The New Yorker*, December 10, 2007¹⁴

3.4.3 Carework: nurses and other care professions

- NY Times (18 Feb 2002) “9 of 10 Nursing Homes Lack Adequate Staff”¹⁵
- Film: Hott and Geary, *Sentimental Women Need Not Apply*, Florentine Films.
- Lovell, *Solving the Nursing Shortage through Higher Wages*, IWPR 2007¹⁶

⁹http://courses.umass.edu/econ340/vacations_health.pdf

¹⁰http://courses.umass.edu/econ340/europe_hypertension.pdf

¹¹<http://courses.umass.edu/econ340/JAMA-US-UK.pdf>

¹²<http://www.jstor.org/stable/1807855>

¹³<http://www.jstor.org/stable/1803128>

¹⁴http://www.newyorker.com/reporting/2007/12/10/071210fa_fact_gawande

¹⁵http://courses.umass.edu/econ340/lte_staffing.txt

¹⁶http://courses.umass.edu/econ340/rn_shortage_iwpr.pdf

- Ash and Seago, “The Effect of Registered Nurses’ Unions on Heart Attack Mortality,” *Industrial and Labor Relations Review*, 2004¹⁷.

3.4.4 Pharmaceuticals: Intellectual Property and Opioids

- *How a chemical entity becomes a medicine*
- *Pharmaceutical profits*
- Tufts Center for the Study of Drug Development R&D Cost Study, March 2016¹⁸
- “The Truth About the Drug Companies,” (Marcia Angell, New York Review of Books, Volume 51, Number 12, July 15, 2004)¹⁹.
- Dean Baker, “Origins of the Doughnut Hole: Excess Profits on Prescription Drugs” CEPR Issue Brief, August 2006”²⁰
- Joseph E. Stiglitz, “Prizes, Not Patents,” *Project Syndicate*, 2007²¹
- The Family That Built an Empire of Pain, Patrick Keefe, The New Yorker, October 30, 2017²²

3.5 Demand for Medical Care or Moral Hazard

Measurement of Demand for Medical Care

- Manning, Willard G, et al. “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment,” *American Economic Review*, Vol. 77 (3). pp. 251-77. June 1987.²³

3.6 Insurance, Crisis, and Reform

3.6.1 U.S. Health Insurance

- Film viewing: *Sicko*
- David Blumenthal, “Employer-Sponsored Health Insurance in the United States,” *New England Journal of Medicine*, 355.1 2006²⁴

3.6.2 Insurance market failure: Adverse Selection

- Malcolm Gladwell, “The Moral Hazard Myth,” *The New Yorker*, 2005²⁵
- *Medicare from 1965 to 2003: Medicare Crisis or Health Care Crisis?*

¹⁷<http://courses.umass.edu/econ340/AshSeago.ilrr.pdf>

¹⁸http://csdd.tufts.edu/news/complete_story/cost_study_press_event_webcast

¹⁹<http://www.nybooks.com/articles/17244>

²⁰http://www.cepr.net/documents/part_d_drug_profits_2006_08.pdf

²¹<http://www.project-syndicate.org/commentary/stiglitz81>

²²<https://www.newyorker.com/magazine/2017/10/30/the-family-that-built-an-empire-of-pain>

²³<http://www.jstor.org/stable/1804094>

²⁴<http://content.nejm.org/cgi/content/full/355/1/82>

²⁵http://www.newyorker.com/archive/2005/08/29/050829fa_fact

- Medicare & You, 2018, Official Government Handbook²⁶
- Neuman, et al., “Marketing HMOs To Medicare Beneficiaries,” *Health Affairs*, 17(4), 1998²⁷

3.6.3 Individual Mandates in Massachusetts and Beyond

- Massachusetts Health Connector²⁸
- Report to the Massachusetts Legislature, Implementation of the Health Care Reform Law, Chapter 58, 2006-2008
- Massachusetts Health Care Reform 2009 Progress Report²⁹
- Marcia Angell, Health Reform You Shouldn’t Believe In, *American Prospect*, April 21, 2008³⁰
- Boston Globe, graphic on MHR covering the uninsured
- John Holahan and Linda Blumberg, Massachusetts Health Reform: Solving the Long-Run Cost Problem, Urban Institute, January 2009³¹
- Linda J. Blumberg and John Holahan, Do Individual Mandates Matter? Urban Institute, January 2008³²
- Linda J. Blumberg, Ph.D., and John Holahan, Ph.D., The Individual Mandate - An Affordable and Fair Approach to Achieving Universal Coverage, *New England Journal of Medicine*, June 17th, 2009³³

3.7 Health Care Finance and the Cost of Health Care

- Nancy De Lew, George Greenberg, and Kraig Kinchen, “A Layman’s Guide to the U.S. Health Care System,” *Health Care Financing Review* 1992; 14: 151-169³⁴
- Victor R. Fuchs, “The Health Sector’s Share of the Gross National Product,” *Science*, Feb. 2, 1990, Volume 247, pp. 534-538.³⁵
- “Health Care and the Budget: Issues and Challenges for Reform,” CBO Director Peter R. Orszag before the Committee on the Budget United States Senate, June 21, 2007³⁶
- The Medical Malpractice Myth (Ezra Klein, *Slate* 2006)³⁷

²⁶<https://www.medicare.gov/medicare-and-you/medicare-and-you.html>

²⁷<http://content.healthaffairs.org/cgi/content/abstract/17/4/132>

²⁸<https://www.mahealthconnector.org>

²⁹<https://www.mahealthconnector.org/wp-content/uploads/progress-reports/ProgressReport2009.pdf>

³⁰http://www.prospect.org/cs/articles?article=health_reform_you_shouldnt_believe_in

³¹<https://www.urban.org/research/publication/massachusetts-health-reform-solving-long-run-cost-problem>

³²<https://www.urban.org/research/publication/do-individual-mandates-matter>

³³<http://healthcarereform.nejm.org/?p=391>

³⁴<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4193322/>

³⁵<http://www.jstor.org/stable/2873800>

³⁶<http://www.cbo.gov/ftpdoc.cfm?index=8255&type=1>

³⁷<http://www.slate.com/id/2145400/>

- Atul Gawande, “The Cost Conundrum: What a Texas town can teach us about health care.” *The New Yorker*, June 1, 2009.³⁸

3.8 What is to be done?

- “The Health Care Crisis and What to Do About It,” Paul Krugman and Robin Wells, *New York Review of Books*, Volume 53, Number 5, March 23, 2006³⁹
- Steffie Woolhandler, MD, MPH and David U. Himmelstein, MD, Single-Payer Reform: The Only Way to Fulfill the President’s Pledge of More Coverage, Better Benefits, and Lower Costs, *Annals of Internal Medicine*, April 18, 2017⁴⁰

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³⁸<https://www.newyorker.com/magazine/2009/06/01/the-cost-conundrum>

³⁹<http://www.nybooks.com/articles/18802>

⁴⁰<http://annals.org/aim/fullarticle/2605414/single-payer-reform-only-way-fulfill-president-s-pledge-more>