UNIVERSITY OF HAWAI’I AT MĀNOA
DEPARTMENT OF ECONOMICS

ECON 434 (001): HEALTH ECONOMICS

UHM Focus Course: Writing Intensive (W)
http://www.hawaii.edu/gened/focus.htm

SEMESTER: Spring 2005
CREDIT HOURS: 3

MEETING TIME: TR 1:30-2:45 PM
MEETING ROOM: Kuykendall Hall, 307

INSTRUCTOR: Gerard Russo
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OFFICE HOURS: TR 10:30-11:30 AM or by appointment, Saunders 515B

OBJECTIVES: The course objectives are fourfold: first, to describe the institutional structure and present the stylized facts of the medical care sector of the U.S. economy; second, to discuss the public policy issues which surround the production and distribution of health services; third, to train students to think like economists and analyze health care problems from an economic perspective; and fourth, to train students to critically analyze the vast array of literature produced by health economists and related researchers.

COURSE DESCRIPTION: This course will survey the basic economic issues surrounding the Health Care Sector of the U.S. economy and act as an introduction to the field of Health Economics. The focus will be on the application of economic principles of scarcity and choice to the use and provision of medical care. Society must decide how much medical care to produce, what kind to produce, and for whom to produce. This course will examine efficiency and equity in allocation of resources. Economic analysis is important to our discussion of
medical care because it can provide valuable insight into the problem of optimal social choice. Economic analysis also provides insight into the behavior of consumers, health care providers and health insurers, and their interactions in the overall health care system. Traditional economic theory will be applied as well as analysis peculiar to health economics. The main topics to be discussed include: the institutional and economic structure of the health care industry; the value of human life; the demand for health, health care and health insurance; private and public health finance; and, models of physician and hospital behavior. Since uncertainty surrounds the use of medical care, a study of the economics of insurance will be essential. This will require sophisticated analytical tools, but the majority of the economic analysis used in this course will be of the descriptive and intuitive sort requiring only prose and graphics. Additional topics will include the insurance problems of moral hazard and adverse selection, the problem of escalating health care costs and the debate over cost-containment policies such as competition and regulation. In addition the prospects of national health insurance will be discussed as well as the practical issue of financing our increasing health care expenditures.

PREREQUISITES: Econ 301 Intermediate Economics: Price Theory or consent of instructor.

TEACHING METHODOLOGY: Lecture with discussion and class participation; student research papers; individual student-faculty meetings; student presentations.


GRADE DETERMINATION: Research Paper 50%
Mid-Term Exam 30%
Attendance & Participation 10%
Peer Assessment 10%
Total 100%

The mid-term examination will be essay style. The questions will be based on readings and class lectures.

EXAMINATION DATE: Mid-Term Examination Thursday, March 10, 2005 1:30-2:45 pm
NO FINAL EXAM: Research Paper Substitutes for Final Exam

RESEARCH PAPERS: Students may choose their research topic. However, the topic
must be approved by the instructor. Research papers are expected to be approximately twenty to thirty (20-30) double-spaced typed pages in length. All research reports must include a title page, abstract, outline, introduction, body, conclusion, and bibliography. All footnotes, citations, references must be accurate and consistent throughout the paper. Plagiarism will not be tolerated. Evidence of plagiarism may result in a failing grade. Students are expected to periodically meet with the instructor on an individual basis to discuss content, form, grammar and writing style. All research papers must be word-processed on a personal computer. Students must strictly adhere to the deadlines listed below. No papers will be accepted late. However, students may continue to revise their research paper until 12:00 Noon, Thursday May 12, 2005 if they deem it necessary. A list of suggested research topics follows the class schedule.

CLASS SCHEDULE:

Tuesday, January 11, 2005  Lecture #1
Thursday, January 13, 2005  Lecture #2
Tuesday, January 18, 2005  Lecture #3
Thursday, January 20, 2005  Lecture #4
Tuesday, January 25, 2005  Lecture #5
Thursday, January 27, 2005  Lecture #6
Tuesday, February 1, 2005  Lecture #7  Paper: Draft Abstract Due
Thursday, February 3, 2005  Lecture #8
Tuesday, February 8, 2005  Lecture #9  Paper: Draft Outline Due
Thursday, February 10, 2005  Lecture #10
Tuesday, February 15, 2005  Lecture #11  Paper: Draft Bibliography Due
Thursday, February 17, 2005  Lecture #12
Tuesday, February 22, 2005  Lecture #13
Thursday, February 24, 2005  Lecture #14
Tuesday, March 1, 2005  Lecture #15
Thursday, March 3, 2005  Lecture #16
Tuesday, March 8, 2005  Lecture #17
Thursday, March 10, 2005  Lecture #18  Mid-Term Examination
Tuesday, March 15, 2005  Lecture #19
Thursday, March 17, 2005  Lecture #20  Paper: Draft #1 Due
Tuesday, March 29, 2005  Lecture #21
Thursday, March 31, 2005  Lecture #22
Tuesday, April 5, 2005  Lecture #23  Paper: Draft #2 Due
Thursday, April 7, 2005  Lecture #24
Tuesday, April 12, 2005  Lecture #25  Course Conference: Student Presentations
       Paper: Draft #3 Due
Thursday, April 14, 2005  Lecture #26  Course Conference: Student Presentations
Tuesday, April 19, 2005  Lecture #27  Course Conference: Student Presentations
Thursday, April 21, 2005  Lecture #28  Course Conference: Student Presentations
Tuesday, April 26, 2005  Lecture #29  Course Conference: Student Presentations
Thursday, April 28, 2005  Lecture #30  Course Conference: Student Presentations
Tuesday, May 3, 2005  Lecture #31  Course Conference: Student Presentations
       Paper: Final Draft Due

Thursday, May 12, 2005, 12:00 Noon:  Last Day to Submit Research Paper

SUGGESTED RESEARCH TOPICS:
(1) Medical Malpractice: A Review of the Economic Literature.

(2) Medical Malpractice: An Economic Analysis of Policy Initiatives From State Legislatures.

(3) Medical Malpractice: Does Tort Law Induce Defensive Medicine and Should We Limit Cash Awards?

(4) Treatment v. Prevention: Are preventive services more efficient than curative services?

(5) The Cost-Efficiency of Health Maintenance Organizations (HMOs) and other types of Provider Organizations.

(6) The Socio-Economic Determinants of Health: With Special Emphasis on Income (Micro-Analysis within USA or International Comparisons).

(7) For-Profit v. Non-Profit Health Care Providers: What are the Behavioral Differences?


(10) The Impact of Diagnostic Related Groups (DRGs) on Technological Change.

(11) The Nursing Shortage/Surplus in Hawaii: Is There One? Why?

(12) Health Care Expenditures in Hawaii: Why are expenditures in Hawaii lower than expenditures in Mainland states.

(13) The Uninsured and Under-Insured in Hawaii and USA: An Analysis Policy Options to Expand Coverage.

(14) Physician Induced Demand: How Significant Is this Phenomenon?

(15) The Demand for Medical Care in Developing Nations: A Review of The Economic Literature

(16) Blood Policy: An Economic Analysis

(17) The Economics of Acquired Immunodeficiency Syndrome (AIDS)
(18) Financing Long-Term Care: A Critique of Proposals for Hawaii

(19) An Analysis of a Specific Country's Health Care System or an International Comparison: Japan, United Kingdom, Korea, The Netherlands, Germany, Canada, Sweden, New Zealand, Taiwan.

(20) National Health Insurance and Health Care Reform: A Review and Critique of Current Proposals.

(21) Does Prospective Payment Result in Cost-Shifting?

(22) Health Care Reform for Developing Countries

(23) The Economics of HIV/AIDS Prevention and Treatment

(24) Aging in Japan, Italy and USA and its implications for Health Care Financing


PLEASE NOTE: Course grades will be assigned on the University of Hawaii plus/minus grading system.

SOME USEFUL WEB SITES:

www.jstor.org

www.nber.org

www.cms.gov

www.urban.org
TENTATIVE LECTURE TOPICS AND READING LIST

1 Introduction: The Medical Economy

1.1 The relative importance of the health care sector in the US economy; national health expenditures.


1.2 An international comparison of health expenditures.


* indicates required reading.

1.3 An overview and description of the medical sector and its institutional structure.


1.4 The development of health economics as a research field and the policy issues it attempts to address.


2 The Relevancy of Economic Analysis to Health Care Policy

* indicates required reading.
2.1 The fundamental principles of scarcity and choice, the economic goals of society, and the production and distribution of medical services: technical efficiency v. allocative efficiency, and efficiency v. equity.


2.2 What are the characteristics of medical care and the medical care market which distinguish it from other commodities and commodity markets?


2.3 A critique of economic theory and the response of economists: the case of blood banks.


* indicates required reading.
3 The Demand for Health

3.1 The measurement of health.


3.2 The determinants of health and the health production function.


* indicates required reading.


3.3 Health as Capital.


* indicates required reading.
4 The Demand for Medical Care

4.1 Economic and non-economic factors in the demand for health services.


4.2 Empirical estimates of the demand for medical care.


4.3 Allocative efficiency and the public demand for medical care.


* indicates required reading.
The Demand for Health Insurance: Theory

5.1 Expected utility theory


5.2 Risk aversion


5.3 Other factors affecting the demand for health insurance and some additional institutional background.


* indicates required reading.
6 Health Insurance Theory: Problems of Imperfect Information

6.1 Moral hazard and reimbursement insurance.


6.2 Moral hazard and indemnity insurance.


* indicates required reading.

6.3 Adverse selection


7 Empirical Evidence of the Impact of Health Insurance on the Demand for Medical Care and Health: Results from the Rand Health Insurance Experiment.

7.1 Health insurance and medical care demand.


* indicates required reading.


7.2 The impact of health insurance on health.


7.3 Are the results of the Rand HIE valid?


Dowd, Bryan et al., (1991), "Health Plan Choice and the Utilization of Health

* indicates required reading.
8 Are Consumers Undertaxed, Overinsured, and Overutilizing Medical Services?: Taxation, The Demand for Health Insurance, and the Demand for Medical Care.

8.1 The tax treatment of health insurance premiums.


8.2 The tax/subsidy to health insurance and the misallocation of resources.


* indicates required reading.

8.3 Has the distortion caused by tax policy been overstated?


9 Models of Physician Behavior

9.1 An overview of the physician services market and a model of physicians as monopolists.


9.2 Target income hypothesis.


* indicates required reading.
9.3 Increasing monopoly model.


9.4 Physician-Induced Demand


* indicates required reading.


9.5 A general model of physician behavior.


9.6 Vertical integration and incentives for group practice.


10 Models of Hospital Behavior and the Efficiency Implications of Differing Objectives.

10.1 An overview of hospital services: technical efficiency vs. allocative efficiency.


* indicates required reading.


10.2 The property rights/profit maximizing model.


10.3 Quality-quantity utility maximizing model.


10.4 Profit-per-physician maximizing model.


* indicates required reading.

10.5 Non-profit hospitals as institutional responses to imperfect information.


10.6 Are for-profit hospitals more efficient than non-profit hospitals?


* indicates required reading.

11 Prospective Payment and Alternative Delivery Systems.

11.1 The impact of prospective payment on hospital performance: diagnostic related groups (DRGs).


* indicates required reading.


11.3 The rise of health maintenance organizations (HMOs).


* Langwell, Kathryn M. (1990), “Structure and Performance of Health...

* indicates required reading.


12 Health Care Reform

12.1 Overview of Reform in the U.S.


12.2 National health plan


Aaron, Henry J. (1991), *Serious and Unstable Condition: Financing America's...


12.3 The recommendations of the Physician Payment Review Commission (PPRC).


12.4 Overview of reform in Europe


12.5 Health care reform in the Netherlands


* indicates required reading.
12.6 Health care reform in the United Kingdom


13 Special Topics

13.1 Long-term care


13.2 Medical malpractice


* indicates required reading.


13.3 Pharmaceutical regulation; hospital regulation.


13.4 The alleged nursing shortage.


* indicates required reading.


14 The Value of Life

14.1 A survey of alternative valuation methods


14.2 Valuation based on willingness-to-pay.


* indicates required reading.


14.3 Criticisms, misinterpretations, and misapplications of the economic approach to value of life; philosophy vs. economics; the limits of economic analysis.


15 The Economics of Acquired Immunodeficiency Syndrome (AIDS)

15.1 Overview


15.2 Policy options.


* indicates required reading.

15.3 Benefits and costs of Human Immunodeficiency Virus (HIV) testing.


15.4 The Economics of HIV/AIDS in Asia

Bloom, David E. and Joyce V. Lyons, editors (1992), *Economic Implications of AIDS in Asia* (New Dehli, India: UNDP)

* indicates required reading.
16 The Demand for Medical Care in Developing Countries

16.1 The Philippines


16.2 Malaysia


16.3 Pakistan


16.4 Peru; Ivory Coast

* indicates required reading.
