Why is health care so expensive? What incentives does the American health care system create for the different actors in the system, and how can we measure the impact of those incentives? Why do health care markets tend to be inefficient and unjust? What are major psychological biases in health care behavior? How can we evaluate health care outcomes? What are some of the main policy proposals for reforming the American health care system? This course examines major topics in the economics of health care policy, including selection, moral hazard, bargaining power, measuring the health impacts of different policies, consumer behavior, provider behavior, fraud control, and the psychology of health policy. It places particular emphasis on empirical studies of health care in professional economics journal articles. Prerequisites: Pad 503 and 505, or equivalent exposure to microeconomics and statistics.

Note: This course is designed to complement RPAD 644: Health Care Finance. The courses can be taken independently, but we assume that many students will take both. For that matter, many health concentrators will probably be taking a course or two from the School of Public Health. As such, while I’m not giving this course a prerequisite of another health course, I am also not covering the sort of breadth of fundamentals that I would if I expected this to be the only class you saw on health care policy. Instead, I’m going to go into greater detail on a few specific areas: measuring the impact of health insurance and health care, evaluating the effects of incentives on consumers and providers, institutional and psychological issues in health care provision, and major policy reform options.

In particular, RPAD 644 covers in detail issues of why health care costs grow, health insurance basics, international health care systems, Medicaid, longterm care, and regional variation in health care costs. So we won’t be doing much of that stuff here.
Grades

27% Weekly quizzes on the reading (3% each, score your best 9 quizzes)

20% Problem Sets (do 2 of 2)

20% Short papers (do 2 of 3)

5% Participation

28% Final Exam

Weekly Quizzes: Each class (except the first day and the last day) will start with a 20-minute quiz on that week’s readings. I will give you a reading guide each week that tells you what material is “fair game” for the quiz. Only your best 9 quizzes will be scored; the others will be dropped.

Problem Sets: there will be two problem sets, requiring math at the level of high school algebra, as well as some familiarity with Excel.

Short Papers: You must write two 5-to-6-page papers (plus exhibits) that discuss and synthesize the course readings. There will be three options. You must decide in advance which assignments you will do; you cannot turn in all three and drop the lowest.

Participation: Good attendance is worth a B. To get a higher grade than that, you’ll have to participate in class.

Final Exam: There will be a final exam during finals week. The Powers That Be will schedule the exam. Almost certainly, they’ll schedule it for the normal class time in the normal class room, but in principle they could schedule it for any time during exam week.

Texts (available at Mary Jane Books):

Cutler, 2005, Your Money or Your Life: Strong Medicine for America’s Health Care System


1 Disclaimer of bias: David Cutler was my dissertation advisor. On the other hand, he’s also an advisor to presidents and the primary health economist at Harvard, so it’s not exactly a stretch to assign his book.

2 This is the same textbook used in HPM 635, a course that goes into much more depth on health program evaluation. (They spend the entire semester on material we spend three weeks on.)
Sparrow, 2000, *License to Steal: How Fraud Bleeds America’s Health Care System*  
Sunstein, 2005, *Laws of Fear: Beyond the Precautionary Principle*  

Other readings will all be available on-line, either through a link provided in the syllabus, through the library website, or through the course website. You should never need to photocopy things, or request articles through ILL. If you think that an article is NOT available on-line, e-mail me.

**NOTE WELL:** we will read only selected pages of most articles. Pay close attention to the posted reading guides each week BEFORE you start reading.

**Unit I: Value in Health Care**

Jan 23: Introduction

Jan 30: Valuing Life

a. Cutler, *Your Money or Your Life*, Intro, ch 1-6  
b. Handout on Present Discounted Value

Feb 6: Cost-Effectiveness Analysis I

a. Drummond et al, chapters 2.1, 2.2, 3, 4.1, 4.3  

Feb 13: Cost-Effectiveness Analysis II

a. Drummond et al, chapters 5 (skip 5.6), 7.1-7.2, 10.3, 10.4.1  

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3 The New York Inspector General for Medicaid personally recommended this book to me, and I’m passing that recommendation along to you. Did I say “recommendation?” I meant “requirement.”  
4 OK, this one isn’t about health care specifically, but it’s directly applicable.  
5 I strongly recommend using the Journal Finder link on the library webpage, which can find things the other library search engines (like EBSCO) can’t find. It’s on the left-hand side of the library website, currently in between eDiscover Beta and Instructions and Tutorials. Or go right there: [http://xp9ax2jm9j.search.serialssolutions.com/](http://xp9ax2jm9j.search.serialssolutions.com/). The librarians don’t seem to be aware that there are gaps in the search engines they recommend. Note that, with the journal finder, you’re searching for the journal and not the article. Once you’ve accessed the journal, you can track down the specific reading.
Feb 20: Cost Effectiveness Examples

**Everyone reads**

a. Problem Set 1 due


c. **Group A reads**
   
   
   
   
   
   

d. **Group B reads**
   
   
   
   


Feb 27: Health Insurance


Unit II: Health Care Incentives

Mar 6: Consumer Incentives


d. Newhouse and Sinaiko, 2008, “What We Know and Don’t Know about the Effects of Cost Sharing on the Demand for Medical Care—and So What?” in Sloan and Kasper, ch4


Mar 13: Provider Incentives; Pay for Performance

a. Problem Set 2 due

b. Cutler, *Your Money or Your Life*, ch7-8


Mar 20: NO CLASSES

Mar 27: Care Coordination; Bargaining Power (Note: these readings are particularly tentative and will definitely be pared down a bit)


d. Pham et al, 2007, “Redesigning Care Delivery in Response to a High-Performance Network: the Virginia Mason Medical Center,” *Health Affairs* 26(4): w532-w544


Unit III: Institutional and Psychological Challenges

April 3: Healthcare Fraud

a. Paper 1 due
b. Sparrow, *License to Steal*, selected chapters

April 10: Federalism in Health Care: the Case of HIV Policy (Special Guest Star: Erika Martin)

e. Martin EG, Schackman BR, Strach P. “The State(s) of Health: Federalism and the Implementation of Health Reform in the Context of HIV Care.”

April 17: Risk perception

a. Sunstein, *Laws of Fear*, chapters 1-6, 8

April 24: Time perception; Consumer Confusion

a. Paper 2 due
Unit IV: Health Care Reform

May 1: Health Care Reform I (Note: these readings are particularly tentative)


May 8: Health Care Reform II

a. No assigned reading
b. Paper 3 due

Sometime in Exam Week (probably May 15): Final Exam