

CURRENT ISSUES IN ECONOMICS: ECONOMICS OF HEALTH
Syllabus and Reading List

Economics 410-002

Fall 2013

Professor: Glenn Blomquist

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Office Hours: TR 1:45-3:15pm & 5:00-6:00pm & M-F by appointment

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University of Kentucky

TR 12:30-1:45pm, BE 206

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Course Description: This course focuses on the individual as a producer of health and consumer of health care. Household production of health is fundamental. Demand and supply of health and medical care are examined from the perspectives of individuals as consumers/patients. Economic models are developed and evidence is examined pertaining to how much health matters for the economic wellbeing of individuals as well as the growth and development of societies. Other topics covered include externalities and public health, how technology and quality influence expenditures, insurance and information, and how values of health improvements, including values of statistical life, are estimated for benefit-cost analysis. (PPACA of 2010 also.)

Objectives: Students successfully completing this course should be able to apply economics to business and public policy choices related to health and to production of their own health.

Prerequisites: Students are expected to have mastered the principles of economics covered in ECO 201 and ECO 202. We will use some tools covered in ECO 401 Intermediate Microeconomic Theory and ECO 391 Business and Economic Statistics. Chapters 2 and 3 of the text can be used to review concepts such as elasticity, indifference curve, isoquant, and multiple regression. We will use some calculus, but it is not a prerequisite for the course.

Required Text: Sherman Folland, Allen Goodman, and Miron Stano (FGS). *The Economics of Health and Health Care*. 7th ed. (Upper Saddle River, NJ: Pearson Prentice Hall, 2013).

Evaluation Criteria: Your grade in the course will be determined by your performance on two hourly exams (50%, 25% each), the final exam (30%), concept quizzes (10%), and homework (10%). Grades will be determined using the standard scale: A: 90-100%, B: 80-89%, C: 70-79%, D: 60-69% and E: less than 60%. In other words, if you get 93% of the points, you are assured of an A, and so on. In the event that grades appear to be too low on an exam, I may use a curve. Information on grades based on scores will be given after each exam. Individual requests for grades based on performance to date will be honored any time during the course. All exams will be in BE 206, our usual classroom.

Concept quizzes are designed to encourage preparedness, attendance, attention, and participation. Concept quizzes can be given any class and can cover the previous class lecture, the reading assignment for the day, what we have just covered in class that day, or questions from homework. During the semester I will give at least 15 concept quizzes, but only the top 10 scores will count. Since a large number of these quizzes will be dropped, no "make up" quizzes are planned.

Course Outline and Readings

I. *Health Matters, Economists Thinking about Health, and Medical Myths*

FGS text: Chapters 2 & 3 are highly recommended for a review of tools.

Kahn Academy has concise videos for review:

<http://www.khanacademy.org/finance-economics/microeconomics/#finance-economics/microeconomics>

Bloom, D., D. Canning, and J. Sevilla. "The Effect of Health on Economic Growth: A Production Function Approach" *World Development* 32 (2003): 1-13.

Deaton, A. "Health, Inequality, and Economic Development" *Journal of Economic Literature* 41 (March 2003): 113-158.

Becker, G., T. Philipson, and R. Soares "The Quantity and Quality of Life and the Evolution of World Inequality" *American Economic Review* 95 (March 2005): 277-291.

Fuchs, V. *How We Live: An Economic Perspective on Americans from Birth to Death*. (Cambridge, MA: Harvard University Press, 1983).

Fuchs, V. "Economics, Values, and Health Care Reform," *The American Economic Review*, 86(March 1996): 1-24.

Enthoven, A. *Health Plan: The Practical Solution to the Soaring Cost of Medical Care*. (Beard Books: Washington, DC, 2002). Google Books.

Dickert-Conlin, S. and A. Chandra "Taxes and the Timing of Births" *Journal of Political Economy* 107 (Feb. 1999): 161-177.

LaLumia, Sara, James M. Sallee, and Nicholas Turner. "New Evidence on Taxes and the Timing of Birth" NBER Working Paper 19283 (August 2013).

Becker, G. "Nobel Lecture: The Economic Way at Looking at Behavior" *Journal of Political Economy* 101 (June 1993): 385-409.

II. *Production of Health and the Demand for Health Capital*

FGS: Chapter 5, Chapter 7 & Chapter 4 pages on economic efficiency & consumer surplus.

McClellan, M., B. McNeil, and J. Newhouse. "Does More Intensive Treatment of Acute Myocardial Infarction in the Elderly Reduce Mortality? Analysis Using Instrumental Variables" *Journal of the American Medical Association* 272 (1994): 859-866.

Eggleston, Karen N. and Victor R. Fuchs. "The New Demographic Transition: Most Gains in Life Expectancy Now Realized Late in Life" *Journal of Economic Perspectives* 26 (Summer 2012): 137-156.

Cutler, D., A. Deaton, and A. Lleras-Muney. "The Determinants of Mortality" *Journal of Economic Perspectives* 20 (Summer 2006): 97-120.

Bozolli, C., A. Deaton, and C. Quintana-Domeque. "Adult Height and Childhood Disease" *Demography* 46 (Nov. 2009): 647-669.

Cutler, D., E. Glaeser, and A. Rosen. "Is the US Population Behaving Healthier?" NBER Working Paper 13013 (April 2007).

Preston, Samuel H., Andrew Stokes, Neil K. Mehta, and Bochen Cao. "Projecting the Effect of Changes in Smoking and Obesity on Future Life Expectancy in the United States" NBER Working Paper 18407 (September 2012).

Wilson, C. and A. Oswald. "How Does Marriage Affect Physical and Psychological Health? A Survey of the Longitudinal Evidence" IZA Discussion Paper No. 1619 (June 2005).

Espinosa, J. and W. Evans "Heightened Mortality after the Death of a Spouse: Marriage Protection or Marriage Selection?" *Journal of Health Economics* 27 (Sept 2008): 1326-1342.

Becker, G. "A Theory of Marriage: Part I" *Journal of Political Economy* 81(July-August 1973): 812-846.

Anderson, R. and M. Grossman. "Health and the Household" *Review of Economics of the Household* 7 (Sep. 2009): 219-226.

Buckles, Kasey, Andreas Hagemann, Ofer Malamud, Melinda S Morrill, and Abigail K. Wozniak. "The Effect of College Education on Health" NBER Working Paper 19222 (July 2013).

Yemelyanau, M., A. Amialchuk, and M. Ali. "Evidence from the Chernobyl Nuclear Accident: The Effect on Health, Education, and Labor Market Outcomes in Belarus" *Journal of Labor Research* 33 (2012): 1-20.

Currie, J. "Healthy, Wealthy, and Wise: Socioeconomics Status, Poor Health in Childhood, and Human Capital Development" *Journal of Economic Literature* 47 (2009): 87-122.

Blomquist, G. "Motorist Use of Safety Equipment: Expected Benefits or Risk Incompetence?" *Journal of Risk and Uncertainty* 4 (1991): 135-152.

III. *Demand for Health Care, Externalities, Epidemics, and Public Health*

FGS: Chapter 9 & parts of Chapters 19, 24, & 25

Pauly, M. "Is Medical Care Different? Old Questions, New Answers" *Journal of Health Politics, Policy and Law* 13 (Summer 1988): 227-237.

Aviva-Aron-Dine, Liran Einav, and Amy Finkelstein. "The RAND Health Insurance Experiment, Three Decades Later" *Journal of Economic Perspectives* 27 (Winter 2013): 197-222.

Kenkel, Donald. "The Demand for Preventive Medical Care" *Applied Economics* 26 (1994): 313-325.

Gerdtham, U. and M. Johannesson. "New Estimates of the Demand for Health" *Social Science & Medicine* 49 (1999): 1325-1332.

Exam 1 about September 26

Ahituv, A., V.J. Hotz and T. Philipson. "The Responsiveness of the Demand for Condoms to the Local Prevalence of AIDS" *Journal of Human Resources* 31 (1996):869-897.

Carman, K. and P. Kooreman. "Flu Shots, Mammograms, and the Perception of Probabilities" Tilburg working paper (2011) <http://members.ziggo.nl/peterkooreman/FluShots.pdf>

Geoffard, P. and T. Philipson. "Disease Eradication: Private versus Public Vaccination" *American Economic Review* 87 (March 1997): 222-230.

Chay, K. and M. Greenstone. "The Impact of Air Pollution on Infant Mortality: Evidence from Geographic Variation in Pollution Shocks Induced by a Recession" *Quarterly Journal of Economics* (August 2003): 1121-1167.

Bhattacharya, J. and N. Sood. "Who Pays for Obesity?" *Journal of Economic Perspectives* 25 (Winter 2011): 139-158.

Philipson, T. and R. Posner. "Is the Obesity Epidemic a Public Health Problem: A Review of Zoltan J. Acs and Alan Lyles's *Obesity, Business and Public Policy*" *Journal of Economic Literature* 46 (2008): 974-982.

Khwaja, A., F. Sloan, and Y. Wang. "Do Smokers Value Their Health and Longevity Less?" *Journal of Law and Economics* 52 (Feb. 2009): 171-196.

IV. *Cost of Health Care, Technology, and Expenditures*

FGS: Chapter 1 & Chapter 6

Newhouse, J. “Medical Care Costs: How Much Welfare Loss?” *Journal of Economic Perspectives* (Summer 1992)

Finkelstein, A. “The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare” *Quarterly Journal of Economics* 122 (Feb. 2007): 1-37.

Lebow, D. and J. Rudd. “Measurement Error in the Consumer Price Index: Where Do We Stand?” *Journal of Economic Literature* 41 (March 2003): 159-201.

Schulze, Charles L. “The Consumer Price Index: Conceptual Issues and Practical Suggestions” *Journal of Economic Perspectives* 17 (Winter 2003): 3-22.

Chandra, A. and J. Skinner. “Technology Growth and Expenditure Growth in Health Care” *Journal of Economic Literature* 50 (September 2012): 645-680. Available as NBER working paper <http://www.nber.org/papers/w16953>

Chandra, Amitabh, Amy Finkelstein, Adam Sacarny, and Chad Syverson. “Health Care Exceptionalism? Productivity and Allocation in the U.S. Healthcare Sector” NBER Working Paper 19200 (July 2013).

Baicker, Katherine, Amitabh Chandra, and Johathan S. Skinner. “Saving Money or Just Saving Lives? Improving the Productivity of US Health Care Spending” *Annual Review of Economics* 4 (2012): 33-56.

Goldman, Dana P., Adam Levine, and Darius Lakdawalla. “Want More Value from Prescription Drugs? We Need to Let Prices Rise and Fall?” *The Economists’ Voice* (forthcoming 2013, available online.)

V. *Health Insurance: Private and Public*

Exam 2 about October 31 covering part of Section V.

FGS: Chapter 8, Chapter 10, Chapter 11 & Chapter 21

Ehrlich, I. and G. Becker “Market Insurance, Self-Insurance, and Self-Protection” *Journal of Political Economy* 80 (July/Aug. 1972): 623-648.

Dehejia, R., T. DeLeire, and E. Luttmer. “Insuring Consumption and Happiness through Religious Organizations” *Journal of Public Economics* 91 (2007): 259-279.

Kaiser Family Foundation. *Summary of the Patient Protection and Affordable Care Act of 2010*
<http://www.kff.org/healthreform/upload/8061.pdf>

VI. *Economic Evaluation, Valuing Health, and Benefit-Cost Analysis*

FGS: Chapter 4 & parts of Chapter 19, 24, & 25 & Class Notes

Blomquist, G. “Self-Protection and Averting Behavior in Consumption, Value of Statistical Lives, and Benefit-Cost Analysis of Environmental Policy” *Review of Economics of the Household* 2 (March 2004): 89-110.

Viscusi, W.K. and J. Aldy “The Value of a Statistical Life: A Critical Review of Market Estimates Throughout the World” *Journal of Risk and Uncertainty* 27 (2003): 5-76.

Viscusi, W.K. and R. Zeckhauser. “Sacrificing Civil Liberties to Reduce Terrorism Risks” *Journal of Risk and Uncertainty* 26 (March 2003): 99-120.

Blomquist, G., M. Dickie, and R. O’Conor. “Willingness to Pay for Improving Fatality Risks and Asthma Symptoms: Evidence for Children and Adults of All Ages” *Resource and Energy Economics* 33 (May 2011): 410-435.

Blumenschein, K., G. Blomquist, M. Johannesson, N. Horn, and P. Freeman. “Eliciting Willingness to Pay without Bias: Evidence from a Field Experiment” *Economic Journal* (January 2008).

Kenkel, D. “On Valuing Morbidity, Cost-effectiveness Analysis, and Being Rude” *Journal of Health Economics* 16 (December 1997): 749–757.

Chandra, A., A. Jena and J. Skinner. “The Pragmatist’s Guide to Comparative Effectiveness Research” *Journal of Economic Perspectives* 25 (Spring 2011): 27-46.

Cook, Joseph, et al. “Using Private Demand Studies to Calculate Socially Optimal Vaccine Subsidies in Developing Countries” *Journal of Policy Analysis and Management* 28 (2009): 6-28.

Final Exam on Thursday, December 19, 2013, 1:00-3:00pm, BE 206

Course “Rules of the Road”:

Classroom Decorum and Courtesy:

- Cell Phones: Silence cell phones before entering classroom.
- Computers and pads: If you use them in class, please focus all attention on ECO 410.
- Leaving the Room: Save leaving the room for emergencies and extreme distress.

Excused Absences:

Students need to notify me of absences prior to class when possible. Senate Rule 5.2.4.2 defines the following as acceptable reasons for excused absences: (a) serious illness, (b) illness or death of family member, (c) University-related trips, (d) major religious holidays, and (e) other circumstances found to fit “reasonable cause for nonattendance” by the professor. Students anticipating an absence for a major religious holiday are responsible for notifying the instructor in writing of anticipated absences due to their observance of such holidays no later than the last day in the semester to add a class. Information regarding dates of major religious holidays may be obtained through the religious liaison, Mr. Jake Karnes (859-257-2754). Students are expected to withdraw from the class if more than 20% of the classes scheduled for the semester are missed (excused or unexcused) per university policy.

Verification of Absences:

Students may be asked to verify their absences in order for them to be considered excused. Senate Rule 5.2.4.2 states that faculty have the right to request “appropriate verification” when students claim an excused absence because of illness or death in the family. Appropriate notification of absences due to university-related trips is required prior to the absence.

Academic Integrity:

Per university policy, students shall not plagiarize, cheat, or falsify or misuse academic records. Students are expected to adhere to University policy on cheating and plagiarism in all courses. The minimum penalty for a first offense is a zero on the assignment on which the offense occurred. If the offense is considered severe or the student has other academic offenses on their record, more serious penalties, up to suspension from the university may be imposed. Plagiarism and cheating are serious breaches of academic conduct. Each student is advised to become familiar with the various forms of academic dishonesty as explained in the Code of Student Rights and Responsibilities. Complete information can be found at the following website: <http://www.uky.edu/Ombud>. A plea of ignorance is not acceptable as a defense against the charge of academic dishonesty. It is important that you review this information as all ideas borrowed from others need to be properly credited. Part II of Student Rights and Responsibilities (available online <http://www.uky.edu/StudentAffairs/Code/part2.html>) states that all academic work, written or otherwise, submitted by students to their instructors or other academic supervisors, is expected to be the result of their own thought, research, or self-expression. In cases where students feel unsure about the question of plagiarism involving their own work, they are obliged to consult their instructors on the matter before submission. When students submit work purporting to be their own, but which in any way borrows ideas, organization, wording or anything else from another source without appropriate acknowledgement of the fact, the students

are guilty of plagiarism. Plagiarism includes reproducing someone else's work, whether it be a published article, chapter of a book, a paper from a friend or some file, or something similar to this. Plagiarism also includes the practice of employing or allowing another person to alter or revise the work which a student submits as his/her own, whoever that other person may be.

Students may discuss assignments among themselves or with an instructor or tutor, but when the actual work is done, it must be done by the student, and the student alone. When a student's assignment involves research in outside sources of information, the student must carefully acknowledge exactly what, where and how he/she employed them. If the words of someone else are used, the student must put quotation marks around the passage in question and add an appropriate indication of its origin. Making simple changes while leaving the organization, content and phraseology intact is plagiaristic. However, nothing in these Rules shall apply to those ideas which are so generally and freely circulated as to be a part of the public domain (Section 6.3.1). Please note: Any assignment you turn in may be submitted to an electronic database to check for plagiarism.

Accommodations due to disability:

If you have a documented disability that requires academic accommodations, please see me as soon as possible during scheduled office hours. In order to receive accommodations in this course, you must provide me with a Letter of Accommodation from the Disability Resource Center (Room 2, Alumni Gym, 257-2754, email address: jkarnes@email.uky.edu) for coordination of campus disability services available to students with disabilities.