Course Description
This course covers economic theory and empirical work relevant to healthcare. In doing so, we will examine the United States healthcare system in some detail, with attention to useful international comparisons. To begin, we will address the questions: Why do people buy health insurance? Why does the government play such a large role in the health care system? Why does health care cost so much, particularly in the United States? We will then address the various “players” in the health care system—patients, doctors, insurance companies, hospitals, pharmaceutical firms, and governments. Finally, we will discuss policy implications, with particular discussion of the Affordable Care Act, which became law in the spring of 2010, and alternative policies suggested by opponents of the act.

Instructor Information
Instructor: Prof. Damien Sheehan-Connor
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Phone: x2531
Office Hours: M 1-2:30pm, W 10:30am-12pm

Readings
Readings will be assigned for each lecture. The primary source of reading materials will be journal articles, though newspapers and other online sources will be used as well. Readings for most of the semester are provided in the attached reading list (note that the pdf version has links to most of the readings). There may be some changes made over the course of the semester based on our progress in the course, student interests, and the “state of the debate.” Updates to the reading list will be made via Moodle.

When reading lots of journal articles, one sometimes concentrates on details and misses the “big picture.” This is where a textbook can be particularly useful. The highly recommended textbook for this course is:

Health Economics, Fifth Edition, by Charles E. Phelps
Suggested readings in this text are noted in the reading list. Copies of the 3rd and 4th editions of this text will be on reserve at Olin Library.

**Class Attendance and Participation**

Because most of the key material for the course will be presented in lecture, class attendance is required. Class attendance and participation will account for 20% of your final course grade.

**Written Assignments**

**Midterm Exam**

A midterm exam will be given in class on Thursday October 20. The exam will emphasize problem solving and economic analysis. The exam will be closed book. The only items you allowed are a writing implement, calculator, and scratch paper. The midterm exam will account for 30% of your final grade. While there are no formal problem sets for this course, practice problems with answer keys will be provided to help you prepare for the examination.

**Response Papers**

A response “paper” is due at 10:00am the day of each lecture. These papers should address the following three points:

1) What conclusion(s) of the author(s) do you find most convincing? Why?
2) What conclusion(s) of the author(s) do you find least convincing? Why?
3) What policy implications are suggested by the readings?

In formulating your answers to these questions, (1) Be sure to address any journal articles, not just supplementary readings, and (2) Be sure to analyze the pieces from an **economic** viewpoint, using the tools discussed in class as well as those you have learned in Economics 300 and 301. This is not an essay. Please answer each question individually and **number your responses 1 through 3**. These response papers are intended to be brief and should be in the range of one to two pages long.

Each paper should be passed in via Moodle by 10:00am the day we discuss the relevant readings. Late papers will not be accepted and extensions will not be given. You can, however, skip any five response papers of your choice without penalty. To be clear, there are 24 classes after the introductory one and you must pass in 19 response papers to receive full credit.
You may discuss the readings with other students in the course in formulating your response papers, but you must write up your final answers individually, using your own words.

Not all response papers will be graded. I will choose lectures at random and grade all papers passed in for that day. The grades assigned will be “check-plus,” “check,” or “check-minus,” which will correspond roughly to letter grades of A, B, and C. For each paper fewer than 19 passed in during the semester, a grade of F will be assigned. The (randomly chosen) graded response papers will account for 20% of your final grade.

**Research Paper**
Questions of interest to both policymakers and business leaders often take the form: “What do we know about X?” To consider some examples, X could be “the elasticity of demand for health care,” “the reasons for health care cost growth,” “the impact of the medical malpractice system on physician decisions,” or “the benefits and costs of allowing pharmaceuticals to have patent protection.” Many of these questions have been addressed, at least in part, by scores of academic articles. There is a great need, therefore, for individuals who can synthesize material from disparate sources into a document that describes the “state of knowledge” about the question at hand. Such documents are often published as review articles in journals, as “white papers” by businesses or think tanks, or as reports by government agencies.

There will be several examples of such syntheses used in this course, for example the report written by the Congressional Budget Office (CBO) assigned for class 8. Importantly, the CBO is mandated not to argue one side or another of an issue and not to make policy advice. (This is to be contrasted with many of the reports that come out of businesses and think tanks and almost always support the particular interests of the author’s organization.) The reports present a summary of what is known and make predictions about what will happen under various policy scenarios without specifically recommending any one policy.

Your final paper should be modeled on a CBO report, on a topic of your choice (related to health economics, of course!). For your chosen topic, you should summarize the current state of knowledge and address the impacts of various policy options under consideration. Your sources should include research articles from economics journals, but can also include other review articles (e.g. an earlier CBO report on a similar topic).

Your paper should begin with an “Executive Summary” of no more than one page that summarizes your findings. It should include a section labeled “Introduction” that presents the question being explored and why the answer is important from a policy point of view. The final section should be labeled “Discussion” and address the policy implications of your findings. You may divide the body of the paper into sections and
subsections that seem best suited to your topic. References to sources should be provided in accordance with the standards used by the *American Economic Review*. The relevant guidelines can be found in points IV.F and IV.K at the following link:

https://www.aeaweb.org/journals/policies/sample-references

The paper should be 10 to 15 pages long (double-spaced, 12 point font, 1.25 inch margins), excluding references, tables, and figures.

While writing the paper, you may discuss your research with other students in the class, but each student’s paper should be wholly original.

The final paper will account for **30% of your final grade**.

Over the course of the semester, you will pass in three items related to this paper:

- **By class time on November 3**, you should submit (via Moodle) a one half to one full page description of your topic, explaining why it is interesting and relevant to this course. Late submission will result in a one grade reduction in your paper grade (e.g. an A- becomes a B+). Particularly poor submissions will also reduce the paper grade by one grade.
- **By class time on December 1**, you should submit (via Moodle) a 2-3 page progress report on your research to date. The progress report should (1) provide a summary of what you have learned; (2) list at least 10 total references; and (3) list at least 5 references from economics journals. (Any questions about whether a given journal qualifies as an "economics" journal can be directed to me in person or by e-mail.) Late submission will result in a one grade reduction in your paper grade (e.g. an A- becomes a B+). Particularly poor submissions will also reduce the paper grade by one grade.
- **By December 17** at 5:00pm, you should submit (via Moodle) your final paper. Late submission will result in a one grade reduction in your paper grade (e.g. an A- becomes a B+). Submission more than 24 hours after the deadline will result in a failing grade unless previous arrangements have been made.

**Course Information**

A course webpage will be maintained at [http://moodle.wesleyan.edu](http://moodle.wesleyan.edu). Important information will be posted here and grades will be recorded here. Course announcements with a critical time component (e.g. lecture cancellations) will be e-mailed to class members.
**Academic Integrity**

It is expected that students will abide by the Wesleyan University Honor Code during this course. It is particularly important not to commit plagiarism in the response papers or research paper. Papers will be processed and checked for plagiarism using the turnitin.com service subscribed to by the University.

Students suspected of violating the honor code will be referred to the Wesleyan Honor Board, as required by the Wesleyan Honor Code.

**Disability Resources**

Wesleyan University is committed to ensuring that all qualified students with disabilities are afforded an equal opportunity to participate in and benefit from its programs and services. To receive accommodations, a student must have a documented disability as defined by Section 504 of the Rehabilitation Act of 1973 and the ADA Amendments Act of 2008, and provide documentation of the disability. Since accommodations may require early planning and generally are not provided retroactively, please contact Disability Resources as soon as possible.

If you believe that you need accommodations for a disability, please contact Dean Patey in Disability Resources, located in North College, Room 021, or call 860-685-5581 for an appointment to discuss your needs and the process for requesting accommodations.
### Reading List

**Note:** All readings, but particularly those for Weeks 22-25 are subject to revision as the time approaches. An updated syllabus will be posted on the Moodle as necessary.

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<tr>
<th>Lecture</th>
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| 1       | **Course Introduction**  
- No readings  
| 2       | **What is special about healthcare economics?**  
- Phelps, Chapter 1: Why Health Economics? |
| 3       | **Choice Under Uncertainty**  
- Phelps, Chapter 10: The Demand for Health Insurance (Particularly sections “The Demand for Health Insurance” and “Reasons People Want Insurance” |
| 4       | **Rational Insurance Purchasing**  
| 5       | **The Problem of Asymmetric Information**  
| 6       | **Insurance Markets with Asymmetric Information: Theory**  
- Phelps, Chapter 10: The Demand for Health Insurance (All useful, but

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<th>Insurance Markets with Asymmetric Information: Evidence</th>
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<td>“Did Community Rating Induce an Adverse Selection Death</td>
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<td>Spiral? Evidence from New York, Pennsylvania, and</td>
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<td>Connecticut,” Thomas Buchmueller and John DiNardo,</td>
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<td>2002), pp. 280-294;</td>
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<td>“Adverse Selection in Health Insurance,” David Cutler</td>
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<td>and Richard Zeckhauser, NBER Working Paper No. 6107,</td>
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<td>July 1997; <a href="http://www.nber.org/papers/w6107">http://www.nber.org/papers/w6107</a></td>
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<td>“Community Rating And Sustainable Individual Health</td>
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<td>Insurance Markets In New Jersey,” Alan C. Monheit,</td>
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<td></td>
<td>Joel C. Cantor, Margaret Koller, and Kimberley S. Fox,</td>
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<td><em>Health Affairs</em> 2004 23:4, 167-175;</td>
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<th>More on Selection in Insurance Markets</th>
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<td>“Selection in Insurance Markets: Theory</td>
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<td>and Empirics in Pictures,” *Journal of</td>
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<td>Economic Perspectives*, 25(1) (2011),</td>
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<td>Insurance in the Individual and Small Group</td>
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<td>Markets,” Katherine Baicker and William H. Dow,</td>
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<td></td>
<td><em>Inquiry</em>, Vol. 46, No. 2 (Summer 2009), pp. 215-228;</td>
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<td>“Risk Pooling And Regulation: Policy And Reality</td>
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<td>In Today’s Individual Health Insurance Market,”</td>
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<td>Mark V. Pauly and Bradley Herring, <em>Health Affairs</em></td>
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<td>May 2007 26:3, 770-779; <a href="http://content.healthaffairs.org/content/26/3/770.full.pdf+html">http://content.healthaffairs.org/content/26/3/770.full.pdf+html</a></td>
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<td>Phelps, Chapter 11: Health Insurance Supply</td>
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<td>10</td>
<td>“Medical Care Costs: How Much Welfare Loss?,”</td>
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  For class, read Box 1 on pages 8-9. This CBO report is a good model to keep in mind when writing your term paper.
- Phelps, Chapter 1: Why Health Economics?

The RAND Health Insurance Experiment

  Available on Moodle (Course Documents -> Readings)
  Available on Moodle (Course Documents -> Readings)
- Phelps, Chapter 4: The Demand for Medical Care: Conceptual Framework
- Phelps, Chapter 5: Empirical Studies of Medical Care Demand and Applications

Impact of Medical Insurance on Health: Medicare

- Phelps: Chapter 3, The Transformation of Medical Care to Health and Chapter 12, Government Provision of Health Insurance (sections on Medicare)

Impact of Medical Insurance on Health: Medicaid

- “Mortality and Access to Care among Adults after State Medicaid
• Phelps: Chapter 3, The Transformation of Medical Care to Health and Chapter 12, Government Provision of Health Insurance (sections on Medicaid) |
|---|---|
| 14 | **Valuing Risks to Health and Life**  
• Phelps: Chapter 14, Appendix: Value of Life |
| 15 | **Physicians**  
• Phelps, Chapter 6: The Physician and the Physician-Firm and Chapter 7: Physicians in the Marketplace |
| 16 | **Regional Variation in Health Care Provision**  
• Phelps, Chapter 3: The Transformation of Medical Care to Health (particularly sections “Physician-Specific Variations” and “Extensive and Intensive Margin Differences: Are They Similar?”) and Chapter 5: Empirical Studies of Medical Care Demand and Applications (particularly section “Why Variations in Medical Practice?”) |
| 17 | **Pay for Performance** |
- Phelps, Chapter 7: Physicians in the Market Place (particularly section “The Role of Payment Schemes”) and Phelps, Chapter 15: Managing the Market: Regulation, Quality Certification, and Technical Change (particularly sections “Measuring Quality” and “Paying for Outcomes”)

### 18 Hospitals: Evidence
- Phelps, Chapter 8: The Hospital as a Supplier of Medical Care
- Phelps, Chapter 9: Hospitals in the Marketplace

### 19 Pharmaceuticals
- Phelps, Chapter 15: Managing the Market: Regulation, Quality Certification, and Technical Change (particularly section “Drugs and Devices: The New Wave of Medical Care”)

### 20 Medical Malpractice
- “Medical Malpractice Tort Limits and Health Care Spending,” Congressional Budget Office Background Paper, April 2006.
### Single Payer Systems

- Phelps, Chapter 16: Universal Insurance Issues and International Comparisons of Health Care Systems (particularly sections “Aggregate International Comparisons” and “Increase in Costs and Health Outcomes”)

### Health System Reform in the US 1: Overview of the Affordable Care Act


### Health System Reform in the US 2: Impact of ACA on Insurance Coverage

- Sommers, Benjamin D., Genevieve M. Kenney, and Arnold M. Epstein. "New evidence on the Affordable Care Act: coverage impacts of early
- Phelps, Chapter 16: Universal Insurance Issues and International Comparisons of Health Care Systems

### Health System Reform in the US 3: Conservative Alternatives to the ACA

- Phelps, Chapter 16: Universal Insurance Issues and International Comparisons of Health Care Systems

### Health System Reform in the US 4: More on the Economics of the ACA